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Editorial Comment

This Month of May

To those living in the temperate zone of this northern hemisphere what period of the year is more welcome than this month of Spring? Nature is rejuvenated; the song of the bird, the new-born flower, the green of the fields and the trees —all tell of renewed life after the deathlike grip of winter. May is the month about which our poets have happily sung throughout the centuries; and it is the season in which Wordsworth, that great lover of Nature, saw those unmistakable "intimations of immortality" so beautifully expressed in his poems which other lovers of Nature never tire of reading. It is the month surely when

"All the earth is gay,
Land and sea
Give themselves up to jollity."

Is not this month, then, a happy choice for the Coronation of our beloved sovereign King George VI with all its attendant festivities and renewed pledges of loyalty to the Throne? The whole Empire rejoices on this occasion; and we think that no words can be more expressive of the sentiments of our members than the following address to His Majesty the King which took the form of a resolution of

both houses of our Dominion Parliament adopted on 10th April last shortly before prorogation on that date.

"To the King's Most Excellent Majesty:
Most Gracious Sovereign:

"We, the members of the House of Commons of Canada, in parliament assembled, desire respectfully to renew, on the occasion of Your Majesty's coronation, the assurance of our united loyalty and support, and to offer our heartfelt good wishes for Your Majesty's reign.

"Since your accession, we have not failed to recognize, in Your Majesty's public utterances, the assertion of those principles under which the prerogatives and powers of government, vested in your person, are held and exercised only according to law and custom sanctioned by general consent. Justice, civil liberty and ordered freedom, thus secured, constitute a most precious heritage. These time-honoured principles, permeating the relations of your peoples and their homelands one with another, have served to create a community of free states, responsible for their own destinies, yet resolved to conserve their common inheritance as one of the treasures of mankind. The solemn form and character of Your Majesty's coronation, comprehending both the old and the new, will, we believe, afford a more vivid sense of the meaning and value of the Crown, thereby strengthening the bonds of mutual trust and affection between the sovereign and his peoples.

"To Her Majesty Queen Elizabeth we desire also to express our sentiments of loyalty and devotion. We rejoice that the great responsibilities of the Throne are shared by one who already holds a place in the affections of your peoples, and whose example fosters those simple and homely virtues which beautify character and enrich family life. The companionship in service thus enjoyed, while ensuring your personal happiness, will afford to Your Majesty support and strength in the discharge of your public duties.

"Through this stormy and baffling era in human affairs, the Throne has remained broad-based upon the people's will. The Crown, symbolizing the unity and the free association of the nations of the British com-

monwealth, continues to embody the principles of government which they hold most sacred, and their common attachment to the ideals of freedom and of peace. We pray, that under Divine blessing and guidance, the foundations of constitutional government may be firmly maintained, and that Your Majesty may be vouchsafed strength and wisdom commensurate with your exalted and exacting task."

Business Profits War Tax Act

During the last session of the Dominion parliament some acts were passed which have a special interest for members of our profession. Among these is the one to revive and amend *The Business Profits War Tax Act, 1916.* A copy of the act is published elsewhere in this issue.

As most of our readers will recall, *The Business Profits War Tax Act* was passed in 1916 and was in force in respect of accounting periods ending in the years 1915 to 1920 both inclusive. By the statutes of 1924 it was enacted that all taxes, interest and penalties payable under the said act should remain a tax owing until fully paid and satisfied. In the revised statutes of 1927, however, *The Business Profits War Tax Act* was noted as being spent, and inasmuch as it was never contemplated in 1927 that the inclusion of this measure in the "spent" column meant that a person who owed taxes due in the period between 1915 and 1920 should not thereafter have to pay those taxes, the legislation passed at the recent session of parliament revives *The Business Profits War Tax Act* in so far as taxes which fell due during the period between 1915 and 1920 are concerned. The other provisions of the act relate to appeals and the new procedure in respect thereto. When the proposed new legislation was under discussion in the House of Commons, the Minister of National Revenue, in reply to an inquiry by a member, stated that the right of assessment under *The Business Profits War Tax Act* had also been revived and that these assessments may be made at any time for a tax that arose and is payable for that period.

Non-resident Income Tax

Another legislative enactment has to do with the non-resident income tax. At the session of parliament in 1933 the *Income War Tax Act* was amended to provide for a deduction of five per cent. from certain dividends and interest

remitted to non-resident aliens. In May 1936 the United States government also made certain alterations in its income tax law by which persons remitting certain dividends and other forms of income to non-resident aliens were required to deduct ten per cent. therefrom and to remit the same to the United States treasury. When the bill providing for these amendments was under consideration at Washington, representations were made to the United States government by and on behalf of the Dominion government that the deduction be five per cent. so that there would be a uniform rate in both countries. The result was that before the amendment became law a change was made in the bill providing for a treaty with countries contiguous to the United States whereby the rate might be reduced to five per cent. In consequence of this, on 30th December last, a convention was entered into at Washington by the government of Canada and the government of the United States, through their official representatives, concerning rates of income tax upon non-resident individuals and corporations. The convention, which is published in this issue, was approved by the House of Commons on 25th March last and now awaits the formal approval of the government of the United States.

Gold Clause Obligations

At pages 428 and 429 of our December 1936 issue reference was made to the decision of the Court of Appeal in England on 2nd November last when it upheld the contention of the plaintiff in the case of *International Trustee, etc.* v. *Rex* who by petition of right was seeking the opinion of the Court as to the obligation of the British government under an issue of its bonds sold in the United States during the Great War. The bonds provided that principal and interest were to be payable at the option of the holder either in the City of New York in gold coin of the United States of the standard weight and fineness existing on 1st February 1917, or in the City of London, England, in sterling money at the fixed rate of $4.86½ to the pound. In 1933, however, the United States government declared all provisions requiring payment in gold to be against public policy and forbade the insertion of such provisions thereafter. Thenceforth payment by paper notes constituted payment in gold in the United States. Without repeating the details given

in our December issue, it may briefly be said that the Court of Appeal held that the law applicable was English law on the basis that when a government contracts in a foreign country the law of such contracting government is to be applied to the contract, and the Court followed the *Feist* case as declaratory of English law under the circumstances and expressed the view that it would not be illegal in the United States for the British government to pay more than the laws of the United States required it to pay.

On appeal to the House of Lords, the decision of the Court of Appeal was reversed on the sole basis that the law applicable was the law of the United States and not English law. The Court held that in a contract relating to movables the law applicable was determined according to the intention of the parties as evidenced by the documents relating to the transaction. The Court analyzed the documents and concluded that it was the intention of the parties that the law of the United States should apply.

We have made reference to this judgment because of its bearing on *The Gold Clauses Act, 1937,* which was also an important Canadian law passed during the last session of Parliament. As explained by the Minister of Finance when introducing the measure, the object of the act is to clarify a situation which has been in doubt ever since this country officially went off the gold standard. It provides that gold clause obligations payable in money of Canada may be discharged dollar for dollar in any money which is legal tender in Canada, but it does not attempt to legislate for other countries, *i.e.* in respect of gold clause obligations of Canadian debtors which are payable in money other than money of Canada. Our government, by this Act, also declares that gold clause obligations are contrary to public policy and provides that no future obligation shall contain a gold clause, *i.e.*, that no citizen of Canada shall enter into an agreement to pay gold, since in this country the supply of gold is under government control. The text of the act is published elsewhere in this issue.

As the subject of gold is of so much public interest at the present time, and as the great accumulation of the metal in the United States and in the other countries referred to in our "General Notes" column is creating problems and situations which doubtless will be requiring early consider-

ation, we bring to our readers this month Professor Day's article, in which he discusses in his usual interesting and clear manner the valuation of the world's stocks of gold.

Raising Capital In Russia

Last December announcement was made in the public press that the new constitution of Russia, which had been ratified by the All-Union Congress of Soviets, made possible a considerable extension of democratic principles in that country. In a recent issue of *The Economist* (London), references were made to some interesting changes which have taken place in this direction such as varying wage rates, the allowance of small plots of ground to individual peasants in collective farms, the privilege accorded to individuals to sell produce and home-made articles on the free market, and the abolition of rationing.

By the adoption of varying wage rates an important concession has been made to the acquisitive urge of man. Only a few years ago a technical expert engaged on some industrial work in Vladivostock and having no way of spending his income in that northern country deposited it in a Moscow bank. When withdrawing his savings on his return he was promptly arrested for contravening state policy. Now that is changed. Encouragement by the state is given to saving, which in the official language of Russia is "postponed consumption." Strange as the statement will sound to readers, deposits in the savings bank of that country rose from 1,638 million roubles to 2,461 million roubles between January 1935 and October 1936. Since the state revenues are not sufficient to meet expenditures, the national debt has been mounting in recent years; and it is not an uncommon sight to find on bulletin boards outside of factories invitations to subscribe to state loans and to "four per cent. conversion loans." Between October 1928 and January 1937 the Russian internal national debt rose from 1,422 million roubles to 22,813 million roubles. As there are approximately 45 million Russian bondholders at the present time, the national debt, like a large part of the government debt in our country, is held by the people, and in this respect Russia is becoming a capitalist country. The boast has been made there that almost every proletarian during the past year or so has invested one or two months' earnings in state loans.

The State Budget

The consolidated budget of the U.S.S.R., according to *The Economist*, derives revenue mainly from the social economy itself in the form of turnover taxes on agricultural and extractive products, and taxes on the profits of state industrial concerns. The turnover tax has more and more become the main source of revenue; direct taxation amounts to about three per cent. of total revenue, while, as a stimulus to efficiency, the taxes on the profits of state enterprises diminish. For those of our readers who are interested in statistics we publish in the "General Notes" column the budget figures for Russia since 1928. From a perusal of these it will be noted that the annual repayment of state loans is much less than the proceeds of new state loans and that the outlay on defence and administration is becoming a very considerable amount of the state budget.

Russia and Gold

Within recent years the production of gold in Russia has increased to so great a degree that the amount for 1936 is seven times what it was in 1929 and the U.S.S.R. entertains the hope of taking first place among gold producing countries, a position now held by South Africa. Last year the production of leading countries, in thousands of fine ounces, was: South Africa, 11,339; Russia, 7,350; Canada, 3,720; United States, 3,714, and Australia, 1,160. According to a recent statement of Soviet officials, the gold reserves of the U.S.S.R. are now in excess of £1,400,000,000, which at current exchange rates is equivalent to $6,860,000,000. This compares with something over eleven billion dollars' worth of gold held by the United States treasury.

Here is another source of new capital for Russia. With increasing shipments of gold the country can now envisage an active trade balance; and as her exports of the precious metal increase and her need of manufactured imports diminish, foreign credits will be established which will provide the capital necessary for further industrialization of the country.

THE FINANCIAL RECORDS AND STATEMENTS OF LIFE INSURANCE COMPANIES*

By William G. Leonard, Chartered Accountant, Kingston, Ontario

LIFE INSURANCE is a modern large-scale business and the repository of a considerable proportion of the savings of the entire nation. This makes it vital that the funds managed as a trust by the various companies shall be amply safeguarded and invested to the best possible advantage. The public utility function of life insurance has, in all English speaking countries, resulted in a system of close government oversight under the various insurance laws. These govern directly the form taken by the annual reports of the companies to their shareholders and policyholders and, indirectly, the manner of keeping their accounts.

While a definition of life insurance is unnecessary, it may be useful to emphasize a fact which is sometimes overlooked, namely, that the business of the modern life insurance company rests on a considerably broader basis than mere insurance against the risk of death. An equally important function is the accumulation and investment of the policyholder's savings within his own lifetime.

Each company writes insurance contracts according to a bewildering variety of "plans." Of these, one broad division will, for the purposes of this essay, suffice—between "participating" or "with profit" policies and "non-participating" or "without profit" policies. Holders of the former type pay a higher rate of premium than those of the latter, in consideration of which, they share in the distribution of the company's "profits"—such profits, in some degree, consisting of the excess of their premium rates over the actuarial cost of the insurance and investment services contracted for in their policies. Some mutual companies issue only this type of policy.

There are three prime requisites to the financial health of a life insurance company:

1. That the actuarial basis of the policy contracts be sound. This means that premium rates must be sufficiently high and that the actuarial reserve be calculated on correct

*In *The 1936 Essay Competition* this essay among others received honourable mention.

principles so that the company will be able to meet all its future liabilities under policy contracts.

2. That the funds accumulated for the reserve fund be wisely invested. It is necessary that the net long-term earnings on these investments taken altogether shall at least equal the rate of interest used in the actuarial reserve calculations.

3. That business be done on a sufficiently large scale to spread risks adequately and to make it possible to keep the ratio of expenses to business transacted low enough that they do not eat up too large a proportion of income.

While it is recognized that, in practice, the above-mentioned matters are not the direct concern of the accountant, the writer thinks that an elementary understanding of them is essential to the intelligent discussion of life insurance records. This essay will attempt to demonstrate the principles on which the accounting system of a life insurance company must rest rather than to describe a definite set of forms. It is important that the accountant be able to show executives the utility to them of the correct application of accounting principles in the drafting of their records and the compilation of their statements. Actual decision in such matters, is, of course, the responsibility of the management.

Special Features of Life Insurance Records

In dealing with life insurance records, it becomes at once obvious that the tremendous number of financial transactions which must be recorded in detail require a well devised sub-division of records and of the duties of those working on them, as well as provision for accurate and painstaking cross indexing of records. It is proposed, under the following headings, to deal with those aspects of life insurance accounts which present the most typical problems, with particular emphasis on features peculiar to the business:

Sale of insurance; collection and recording of premium receipts

Policy records

Disbursements and allocation of profits under policy contracts

Single premium policies and annuities

Investments and investment income

General system of internal check.

In this section, the records themselves will be dealt with, discussion of the annual statements being left for the section following.

Sale of Insurance; Collection and Recording of Premium Receipts—The actual process of selling life insurance and the collection of premiums is carried on by a large number of branches and agencies throughout the whole country. Each policy sold by a local agent is, however, issued by head office only on approval of the proper head office officials based on their consideration of the particulars furnished by the would-be insured on a signed application form. This form is placed on permanent file at head office as an important permanent record. Misrepresentation of a material particular in it is legal grounds for voiding the insurance contract. As, from the nature of their business, insurance companies must undertake considerable expense in investigation of individual cases where attempts at fraud are suspected, it is important that this document be available in connection with every policy issued by the company.

Efficient financial control by head office over the operation of the branches requires an adequate system of periodical reports of all branch transactions to head office coupled with periodical examination of branch records by a staff of capable inspectors.

Any good system will provide for standard report blank forms and a cash book uniform for all branches from which the reports can be quickly prepared. A loose-leaf form which can be written up in duplicate, one copy to provide the report, the other the cash book, may be found convenient. Each branch or agency should be required to deposit its net receipts daily in a local bank account, withdrawals from which shall be by head office only. Incidental expenses of the branches for office rent, cleaning, postage, etc. should be paid at the agency from an imprest fund, this fund to be replenished monthly by cheque from head office on receipt of a signed requisition from the branch, supported by proper expense vouchers. Branch salaries should be paid by cheque from head office. All agents and branch cashiers, should be bonded for an adequate amount with a reputable bonding company.

A special type of columnar cash book will be needed at head office for the entering of totals from the branch reports. First year premiums will be recorded separately from renewals, and premiums on non-participating policies segregated from those on participating contracts. Separate columns will be needed for the deduction of agents' commission for each type of premium, also one for bank discount on deposits. The deposit column will be posted in total at the end of each month to an "agency banks' controlling account" in the general ledger and in detail to a subsidiary ledger containing a separate sheet for each local bank account. When funds accumulate in the local accounts, the head office cashier will make bulk transfers from them to the head office bank account.

Some premiums will be received at head office by mail or directly from policyholders. All mail should, of course, be opened by a responsible official suitably bonded who should enter receipts contained in it on a machine-numbered receipt voucher form made out in duplicate before turning these over to a clerk whose duty it will be to enter them in order of number on a daily report form divided into columns similar to those used by the branches. At the end of the day, the totals from this will be entered in the receipts cash book in the same way as are the branch reports.

It will probably be found necessary in order to have a complete check on premium income to have special premium registers made up from the policy records in which particulars of premiums will be listed under the dates on which they become payable. These records will have reference columns which will indicate the number of the receipt voucher on which payment is recorded, the number of the automatic loan voucher made out for it, or the lapsing of the policy for its non-payment. This record, by sub-division according to territories, may be made to serve as the basis for compilation of tax returns to those provinces which tax gross premium income received from persons resident within the respective provinces.

Policy Records—A complete card index file should be kept in alphabetical order bearing the names of all persons who have ever applied to the company for insurance. Each card should bear full details as to rejection of applications or, if the application was accepted, the number of the policy

and of all subsequent policies issued to the applicant together with loan card numbers and details as to the maturing or lapsing of contracts not now in force. From this index, full references to records concerning any policyholder should be obtainable in a few seconds.

A complete card record of policies issued is essential, the cards being filed in order of policy number, usually under various distinct series of numbers, the division being according to differing types of policy contract. Each card will contain full information in regard to the policy issued under its number and will be adequately cross indexed to loan records, if any, pertaining to the policy.

Particulars will be available on these policy cards from which the premium registers and automatic loan vouchers may be compiled. They will bear the name of the agent writing each policy and will thus furnish material for the construction of a complete "performance record" for each agent which can be made to show over a period of years which agents write a high proportion of permanent business and which of them have an excessive ratio of lapsed policies and overdue premiums.

Disbursements and Allocation of Profits under Policy Contracts—These will come principally under five headings:

1. Claims due to maturity of contracts or death of policyholder
2. Surrender of policies for cash before completion of contract
3. Dividends on policies
4. Cash loans on policies
5. Automatic premium loans.

It should, perhaps, be mentioned here that the actuarial staff will, of necessity, have an up-to-date record of all policies from which they can calculate quickly cash-surrender values and accruing dividends on any policy.

1. When a claim is received owing to the maturity of a contract or death of a policyholder, the relevant claim papers should be collected and reviewed by the claims committee, who, if the claim is approved will pass it for payment. Requisition for issue of a cheque to the person or persons entitled to payment will be made out and sent to the cashier. The claim papers including the cancelled policy will be placed in a voucher jacket, numbered in proper

sequence for inclusion in a permanent file. Entries must also be made on the policy and index cards referring to the number of the claim voucher terminating each policy contract.

2. When a policy is being surrendered for cash, a claim voucher bearing the witnessed signatures of policyholder and beneficiary will be attached to the cancelled policy, the amount of the claim will be certified to by an official of the actuarial department, and will then be approved for payment by the claims committee. The cashier will be requisitioned to issue a cheque and the completed voucher numbered in proper sequence and placed in a permanent file, the necessary entries being made on the policy and index cards.

3. The calculation of profits accruing on policies for the purpose of determining dividends payable thereon is an extremely complicated matter and is done by the actuarial department.

Premium receipts contain, of course, an element of revenue of the current year, but to a much greater degree, they consist of contributions to a reserve fund from the accumulation of which payment of liabilities under policy contracts must be made at some future time. The allocation of these receipts between revenue and reserve does not take place until the end of the year when the actuarial staff compute the reserve fund required in which process they use mortality tables and complicated mathematical formulae. The liability on account of reserve fund is set up, together with all other liabilities and reserves for contingencies, and the excess of income receipts over expenses and reserve appropriations is regarded as net profits. Of these, a legal minimum must be reserved for holders of "with profit" policies and the remainder may be distributed to the shareholders. The portion belonging to the policyholders must then be allocated to the individual policies. Various options are available to each policyholder as to the treatment of his dividends and effect must be given to his choice by appropriate entries in the records.

Duplicate memoranda should be prepared in the actuarial department, one for each policy on which a dividend accrues, and one copy forwarded to the accounting department from which effect may be given to whatever choice the policyholder makes. If the dividend is being taken im-

mediately in cash, a requisition will be made to the cashier for the issue of a cheque. If any other option is taken, the dividend will be journalized to give effect to it.

4. Each cash loan voucher will consist of a standard application form bearing the witnessed signature of the applicant and of the beneficiary, initialled by an official of the actuarial department and passed for payment by the responsible committee. A cheque will be requisitioned and the loan voucher numbered in its proper sequence for placing on permanent file, the number, in each instance coinciding with that of the relevant ledger card. In case of a subsequent application for a loan being granted on a policy which already has an advance against it, it is essential that this be treated as an addition to the old loan and posted to the same ledger card. It will probably be found convenient to have the new loan application bear the same number as the old and to file the applications together under that number—differentiating them if desired, as loan 101a, 101b, etc., which vouchers would represent two distinct advances on the same policy, both of which would be posted to ledger card #101.

A controlling account for cash loans on policies will be kept in the general ledger. Subsidiary to this, a card ledger will be used for recording individual loans, subsequent advances, addition of interest, receipt of payments, etc. Each ledger card will be cross indexed to the relevant policy card and also to the automatic loan card in every case in which an automatic premium loan has attached itself to the policy. A form with separate columns for interest and principal items will probably be found most convenient.

Interest at the contract rate will be added to the principal unless it is paid when due. An interest register will be needed to record interest falling due in each month, monthly totals from which will be journalized for posting to the general ledger. Close co-operation between actuarial and accounting departments will be essential to ensure that each policy shall be promptly lapsed as soon as accretion of interest or non-payment of premiums bring the total debts connected with it in excess of its total loan value.

5. Most modern life insurance contracts provide that after the payment of the first two or three annual premiums, a policy shall not be lapsed for non-payment of premiums

until such time as the total premiums in arrears plus interest together with cash loans if any on policy equal the loan value of the policy. Premiums unpaid on any such policy should be journalized, most conveniently in total each month from a special register, the debit being to an asset, "automatic premium loan controlling account" and the various renewal premiums accounts being given credit. Detail posting should be made to a subsidiary card ledger similar to that for cash loans. Each card should, of course, be properly cross indexed to other relevant records. It is equally as important with these as with the cash loans that a subsequent advance on the same policy be entered on the same ledger card as the original loan so that there shall not be two cards for the same kind of advance against any one policy.

Single-Premium Policies and Annuities—Single-premium policies differ from other policies in that the insured pays for his policy by one large payment rather than by a series of smaller payments. Annuity contracts consist of the undertaking by the company to sell a fixed yearly income to the annuitant in exchange for a stipulated purchase price. Such a contract holds a greater element of risk for the company than ordinary insurance contracts, while it is extremely difficult to estimate the company's probable profit on it or on single-premium policies owing to the comparatively greater effect of possible fluctuations in interest rates. It will usually be found that this business will be segregated in a department of its own because of its peculiar financial problems. The policy records will parallel those of other types of policy and premium or annuity purchase receipts will be segregated from ordinary premium receipts in the same manner that these latter are subdivided. Issue of annuity cheques will be by requisition from the official in charge of this department. These cheques will be made out in special form making them payable to payees only, not to their order, to avoid possibility of loss through fraud.

Investments and Investment Income — It has already been noted that each policy contract, during the years when it is maturing, is, year by year, accumulating a reserve fund out of premium receipts to provide for its own ultimate discharge. In the meantime, the company invests the funds representing this reserve in income-bearing securities, two

factors of prime importance in their selection being safety and marketability—the latter because life insurance companies are no less liable than banks in times of financial crisis to "runs" in the form of an abnormal demand for cash loans and policy surrenders for cash.

The security portfolio of a life insurance company will contain, for the most part, bonds and debentures, mortgages and dividend bearing stocks. Controlling accounts will be kept in the general ledger for each type of security with sub-divisions as required. Subsidiary ledgers will also be needed, their sheets to be ruled in such manner as to contain all requisite information for each type of security held.

Interest registers in which entry shall be made from the ledger records for the interest income which comes due in each month on bonds, debentures, and mortgages will be necessary to provide an adequate check on this revenue. It will also be found helpful to keep an up-to-date record of dividend declarations on stocks held which will be written up as soon as a dividend is declared from which record the subsequent receipt of all such revenue accruing may be verified.

Where bonds are carried at amortized book value, it may be found convenient to work out an amortization schedule for each lot purchased at the time of acquisition and, from it, to put through amortization entries each month for those lots whose coupons come due in that particular month rather than to leave all the calculations for amortization until the end of the year.

When bonds or mortgages are in default of interest or principal, it will usually be found useful to transfer the ledger sheets for the defaulted items to a separate binder along with "information" sheets for each, on which relevant additional information may be entered. This device renders quickly available complete information about these issues which usually require a proportionately large expenditure of time and attention from the investment manager.

General System of Internal Check—A good system of internal check for a life insurance company does not provide many problems essentially different than in other businesses. It is important that an adequate system of control over agencies be in force similar to the one described above. A routine division of duties between persons receiving cash,

those making original entries of cash transactions, and those doing posting work should, of course, be mapped out and adhered to.

All officials handling cash or negotiable securities as well as the cashier should be bonded for adequate amounts.

Having regard to the average size of the transactions, it is obviously important that a system which will ensure an efficient control over the handling and payment of claims under policy contracts be in force. The duties of all members of the actuarial staff should, of course, be absolutely separate from the duties of the accounting and administrative departments. An official of the actuarial department should check and initial all vouchers in payment of claims under policy contracts before they are passed for payment by the administrative official or officials who comprise the claims committees. All cheques for these and other payments should be issued by the cashier only on requisition by a responsible official. The requisitions should be made out in triplicate, one copy to be kept on file, one for the cashier's file, and one to go to the signing officer whose duty it is to countersign all cheques. As mentioned previously, agency and branch salaries should be paid by cheque from head office and should be requisitioned monthly by a salary list prepared in the office of the superintendent of agencies. The cheque register for the recording of payments should contain a sufficient number of columns for the grouping of items under proper headings for posting to the general ledger as monthly totals rather than as individual entries.

All purchasing of stationery and other supplies should be in charge of one official who will make purchases on the requisition of the department needing supplies. All invoice vouchers should be certified by him before being passed for payment.

All securities should, of course, be registered as fully as possible. Access to the bank vault or other place of safe-keeping should be possible only to two or more officials together, never to one man alone.

Annual Reports and Statements

Forms are prescribed by legislative authority which the annual statement of a life insurance company must take. Additional information may, of course, be furnished by the

directors, if they so desire. It is not proposed to give the legal forms in detail but to outline them briefly and to comment on some of their significant features.

Balance Sheet—Unlike the balance sheets of most enterprises, this statement is not a summary of the general ledger balances after the nominal accounts have been closed out. It is made up from various sources of which the general ledger is only one.

Assets are divided into "ledger" and "non-ledger" assets. Most of the important liabilities are "non-ledger" items; that is, if they are entered at all in the ledger it is merely by a single journal entry at the end of each year for the purpose of bringing the ledger into agreement with the statement, not through the monthly building up of accounts.

"Ledger" assets consist chiefly of real estate and securities owned by the company, loans to policyholders and cash on hand and in bank. The method of valuing securities for the balance sheet is a matter over which governmental departments are exercising increasingly direct oversight.

"Non-ledger" assets are chiefly interest, dividends and rent due and accrued and premiums due and uncollected or deferred. The general ledger accounts for income items are usually kept on a cash rather than on an accrual basis largely due to the necessity of taking off an "Income and Disbursements" statement at the end of the year which form of statement is discussed below. Because of this, year-end accruals are usually calculated from subsidiary records for balance sheet purposes, but are not journalized as they would be if revenue accounts were kept on a true income basis.

The most important balance sheet item is, of course, the reserve fund which represents the liability to policyholders for future payments under policy contracts. This must be calculated at the end of each year on a basis at least as conservative as the one set down in the governing statute. Under the provisions of most insurance acts, the "legal" reserve of each company is calculated by government experts at least once in five years.

The other liabilities include accrued claims due and unpaid, accrued taxes and other expenses, reserves for unreported claims and other contingencies, amounts left on deposit with the company, capital stock and surplus. As

has already been explained, all companies other than mutuals must divide their surplus between policyholders and shareholders, the maximum proportion which may be apportioned to shareholders being fixed by statute.

Statement of Income and Disbursements — The statement with this hybrid name is substantially but not wholly a cash statement; that is, it does not balance with opening and closing cash balances, the items being for the most part revenue and expenditure items figured on a cash basis. It also includes some items which are not cash items such as the amount included in renewal premium income which comes from automatic premium loans and the amount included in cash-surrender disbursements for policy lapses against such loans. "Total income" and "Total disbursements" as shown in this statement are meaningless items which have no significant relation to each other, to the company's profits for the year, or to the balance sheet. This form has little or no value as a statement, but the fact that the form is uniform for all companies makes possible comparative tabulation of the individual items in the statements as between different companies for the purpose of statistical surveys issued periodically for the business as a whole. A forceful exposition of the demerits of this form of statement appears in the April 1934 issue of "The Canadian Chartered Accountant" in "Annual Statements of Insurance Companies" by Mr. Alfred B. Shepard, F.C.A.

In so far as the writer is aware, there is, on this continent, no legislative provision for the publication of a true revenue and expenditure statement, but life insurance executives would be well-advised to construct one each year for their own guidance and, for the information of their shareholders and policyholders, to publish it in addition to the statements required by law. Some companies already do this.

Conclusion

It has been pointed out by many writers that life insurance is a business in which the financial history of each company is of a nature to induce over-optimism in the early years of its organization as well as during any period of rapid expansion of business when the sale of new policies is proportionately large in relation to maturing business. For these years, the company's statement in its legal form

will show a huge excess of "income" over "disbursements" which may or may not indicate the existence of a profit. Even if proper income statements are made up, the emergence of a "net profits" figure may be merely a reflection of the current practice of overcharging the holders of "participating" policies in the first instance and then handing back the excess charge as a division of profits.

The need for critical analysis of the real significance of the figures embodied in the statements is obvious. The close supervision of life insurance companies by governmental departments of insurance has proved of immense value in helping to keep financial policy within conservative limits. Instances of legislative fumbling are not lacking, however, and many examples of apparent lack of adequate comprehension in financial matters on the part of the general electorate and of trial juries could be cited. Especially alarming is the tendency of governments to look upon large accumulated reserves of any sort as evidence of ability to bear increased burdens of taxation. Formation of a more intelligent public opinion on financial matters of any sort is not only desirable, but is, in all democratic countries, becoming a grim necessity.

In his capacity of auditor and expert adviser, the professional accountant can be of immense service here as well as in more routine matters. He, better than anyone else, has the ability and the training to bring home the true rather than the apparent meaning of the figures with which he deals not only to insurance executives themselves, but, through them, to the large body of small policyholders whose frequent failure to understand their vital interests in these matters as capitalists on a small scale makes it all the more important that they receive expert guidance so that they may acquire a more adequate grasp of the principles involved.

EDITOR'S NOTE—A further reference to insurance companies' accounts appears in the "General Notes" column of this issue.

THE PUBLIC ACCOUNTS OF CANADA

By George C. McDonald, Chartered Accountant, Montreal

IN THE course of the discussions at the recent session of the Dominion parliament on Bill No. 12, regarding the accounts of the Canadian National Railways System, attention was directed to the Public Accounts of Canada.

The discussions brought out the suggestion that a consolidated balance sheet of the Public Accounts and the Canadian National Railways System should be prepared. This was done and presented in very condensed form to the Standing Committee on Railways and Shipping of the House of Commons, in connection with its session on the 9th March 1937. Except that it disclosed the actual gross debts of the Dominion and the Canadian National Railways without duplication—a figure of some $4,750,000,000.00—the actual information that this particular statement afforded was of little value.

From the information given before the Standing Committee, which included the proposed revised balance sheet of the Canadian National Railways as at 31st December 1935, and the proposed revised statement of the Public Accounts of Canada as at 31st March 1936, there was prepared and submitted to the Standing Committee on Railways and Shipping of the Senate on the 6th April last a Consolidated Statement giving details of the two balance sheets. The purpose of this Statement was to show the actual debts of the Dominion of Canada and the Canadian National Railways without duplication and the assets which the respective sets of accounts disclosed, and to draw attention to the extent to which the public debt of the Dominion of Canada was caused by advances to the Canadian National Railways for capital purposes and for deficits.

A copy of this consolidated balance sheet is presented herewith and, undoubtedly, the first point that will strike the reader will be the fact that considerably more than half of the liabilities of the Dominion result from the acquisition and operation of the National Railways. This fact alone justifies the statement that a proper appreciation of the financial position of Canada cannot be obtained without reference to the two sets of accounts. It appears,

therefore, that investors and taxpayers should be provided with this information, preferably by means of a consolidated balance sheet.

Before considering the form in which such a balance sheet should be presented, it is necessary to review the statements as published heretofore and to consider the changes proposed in Bill No. 12. The principal changes, as far as the balance sheet of the National Railways at 31st December 1935 is concerned, are:

(1) To write down investments by $262,000,000.00 against Capital Stock owned by the Dominion Government and Old Governmental Grants.

(2) To write off loans from the Dominion of Canada, representing cash deficits of $361,000,000.00, by crediting Profit and Loss.

(3) To reverse the charge of $495,000,000.00 for interest on government loans by crediting Profit and Loss.

(4) With the exception of certain current accounts, the remaining Government accounts are then gathered under the "so-called" Proprietor's Equity shown at $688,000,000.00.

After giving effect to Bill No. 12 the asset side of the National Railway Balance Sheet shows the tangible assets of the Railways at somewhat over $2,000,000,000.00. Whether or not the assets are actually worth this vast sum is a question which might well be discussed, but it is not important for the present discussion.

To this figure is added a proportion of the Consolidated Fund arising from the transfer of Railway deficits and sundry items of some $621,000,000.00. This amount includes an amount of $379,000,000.00 transferred under the provisions of Bill No. 12 (being the cash deficits of $361,000,000.00 previously referred to and sundry other items) and deficits of $241,000,000.00 already charged to the Consolidated Fund and which have not been shown on the Railway Balance Sheet. It does not include interest on the items included in the Proprietor's Equity, nor on that portion of the funded debt of the Dominion which has been employed for meeting such deficits.

The direct liabilities of the Canadian National Railways, as shown on the Revised Balance Sheet, amount to ap-

proximately $1,318,000,000.00. Deducting this amount from the Total Tangible Assets and Deficits, there is a balance of about $1,363,000,000.00. This represents the amount of debt incurred by the Dominion Government on account of the Canadian National Railways without providing for any interest on the amount of $388,000,000.00, being advances for capital expenditures for Canadian Government Railways, nor interest of $495,000,000.00 on Advances to the Canadian National Railways shown on the Balance Sheet at 31st December 1935. While the latter figure had been accrued in the books of the Canadian National Railways, it had never been taken into account in the Public Accounts of Canada.

When considering what the Canadian National Railways are annually costing the Dominion, account must be taken not only of the deficits, averaging well over $50,000,000.00 a year for the last six years, but also for interest which the Dominion Government is paying on the $1,363,000,000.00, being the portion of debts applicable to the Canadian National Railways. At 4% this represents an annual cash outlay of over $50,000,000.00.

The particulars of the remaining assets, after eliminating the Canadian National Railway items, are shown in much the same detail as in the published accounts, with the exception that the "Consolidated Fund" has been subjected to analysis. As revised in the Public Accounts, this item shows at $1,573,810,265.21. After transferring the Railway deficits to the Canadian National Railway Account, the balance is shown under two headings:

(1) Federal portion of Relief	$240,102,587.00
(2) All other accounts, including War Expenditure	712,374,941.52
	$952,477,528.52

In the process of the revision of the balance sheets, the claims against the Canadian National Railways which are not being abandoned are being carried in a company formed for the purpose, called the "Securities Trust." These claims, as at 31st December 1935, amounted to $1,140,-

557,593.12, without including deficits on Canadian National Railways 1932 to 1935, and on Eastern Lines July 1927 to 1935 amounting to a total of $241,000,000.00, already charged to Consolidated Fund.

To anyone who studied the two sets of accounts, the necessity for revision was apparent. The question that remains is whether sufficient revision has been made, and if not what further steps should be taken:

(1) In the Accounts of the Canadian National Railways

(2) In the Public Accounts of Canada.

As far as the accounts of the Canadian National Railways are concerned, the important point would seem to be to study the history of the assets shown on the balance sheet and ascertain the propriety of continuing to carry them at the book figures, having in mind the value of the respective assets as a measure for the use of the Board of Railway Commissioners, which is charged with the responsibility of fixing rates.

More important is the question of the revision of the Public Accounts of Canada. In this case, there is needed not only an historical study of each asset and other debit balances for the purpose of a proper appreciation of the value of such items, but also a study of the liabilities and their relation to the assets and debit balances.

The purpose of this article is to bring these matters to the attention of our profession in the hope of promoting some improvement in the form of the accounts and in their presentation, as well as in the method of dealing with the actual loans. What seems desirable is a form of balance sheet in which the debt of the Dominion of Canada would be segregated and labelled to show the particular activity or purpose on which the money was spent. In other words, an analysis should be made showing how the moneys borrowed by the Dominion of Canada have been applied.

Further, when such a segregation of debt has been completed, it would seem desirable that Public Accounts should include a schedule in which the interest on public debt would be allocated to the departments or activities of government for which it was incurred. For instance, much of this interest would be applicable to Post Offices, Canals, Railways, and Harbours, the operations of which could be set

out in a schedule which would show the revenues from, expenditures on (including such interest), and net results of such activities. The publication of such results would show the surplus or deficit of the directly applicable revenues over the expenditures. Other activities from which there was no direct income could be appropriately grouped so as to display clearly the net cost of each function of the Government.

It is perhaps too much to ask that an analysis should be made of the Deficit in Consolidated Fund Account since Confederation, but it is suggested that an appropriate starting point would be at 31st March 1914. From that time on the charges and credits to Consolidated Fund could be analyzed and classified according to their purpose (War expenditure, Railway, Relief, Ordinary revenue and expenditure, etc.) This analysis, together with an appraisal of the values of the active and non-active assets, with a view to writing off all assets the retention of which as such could not be defended, would give a picture that would probably indicate an appropriate method of subdividing the debt of Canada into certain groups.

It is confidently asserted that publication of information of the character outlined would play a very important part in the future in assisting to correctly determine Government policies in connection with expenditures which would redound to the benefit of the people of Canada.

(See Consolidation of Balance Sheets on next page)

CANADIAN NATIONAL RAILWAYS—31ST DECEMBER 1935
PUBLIC ACCOUNTS OF CANADA—31ST MARCH 1936
CONSOLIDATION OF BALANCE SHEETS
AFTER GIVING EFFECT TO PROVISIONS OF BILL No. 12

ASSETS

CANADIAN NATIONAL RAILWAYS:			
Tangible Assets—			
Current	74,787,953.24		
Deferred	18,837,219.76		
Unadjusted Debits	22,064,024.49		
Road, Equipment, Properties, Sinking Funds, Affiliated Companies, etc.	1,945,022,769.15	2,060,711,966.64	
Deficits—			
Proportion of Consolidated Fund arising from transfer of Railway Deficits exclusive of interest on Government Advances		621,332,736.69	2,682,044,703.33
GENERAL:			
Active Assets—			
Cash and Bullion	22,480,487.11		
Advances—			
Provinces, etc.	223,788,091.49		
Foreign Governments	30,494,720.00		
Soldier and Land Settlement Loans	43,594,539.60		
Miscellaneous Current Accounts	43,649,302.06		
Loans to Canadian National Railways—January to March 1936	1,183,592.65		
Other Railway Accounts	8,513,700.84		
		373,704,383.75	
Non-Active Assets—			
Canals	242,855,235.35		
Public Works—Miscellaneous	265,165,018.23		
Military Stores	12,035,420.50		
Territorial Accounts	9,895,947.68		
Miscellaneous Investments (mainly National Harbours Board)	79,621,229.71		
Canadian National Steamships	15,507,970.19		
Old Accounts—Canadian Pacific Railway	62,791,435.25		
Sundry Railways—mainly Hudson's Bay	54,488,433.22	742,360,690.13	
Deficits			
Balance of Consolidated Fund representing—			
Federal portion of Relief	240,102,587.00		
All other accounts including War Expenditure	712,374,941.52	952,477,528.52	2,068,542,602.40
			$4,750,587,305.73

LIABILITIES

CANADIAN NATIONAL RAILWAYS:		
Long term debt in hands of public	1,154,779,000.79	
Minority Interests in Capital Stocks	4,584,225.00	
Current Liabilities	45,330,201.95	
Deferred Liabilities	3,423,088.12	
Unadjusted Credits and Reserves	35,272,608.46	
Governmental Grants	2,570,904.78	
Government Temporary Loans repaid by March 1936	72,683,250.00	
	1,318,643,279.10	
*Proportion of Dominion Government Funded Debt applicable to Canadian National Railways	1,363,401,424.23	2,682,044,703.33
GENERAL:		
Funded Debt less Sinking Funds	3,211,347,008.32	
*Less: Proportion applicable to Canadian National Railways	1,363,401,424.23	
	1,847,945,584.09	
Insurance and Superannuation Funds	150,614,097.08	
Other Liabilities	69,982,921.23	2,068,542,602.40
		$4,750,587,305.73

Note:
* A transfer of $1,363,401,424.23 from the General Debt of the Dominion to the Canadian National Railway Debt has been made representing the excess of railway assets and deficits (excluding interest on Government loans) over direct liabilities. It appears that to the extent of this excess the debt of the Dominion has been incurred for the purposes of the Canadian National Railways. The interest which is not included is an amount of $495,030,187.29 accrued on the books of the Railway at 31st December 1935 but eliminated by the terms of Bill No. 12, together with interest on $241,704,973.00 being the Dominion's contribution for cash deficits charged to the Consolidated Fund.

ADVERTISING AGENCY ACCOUNTING

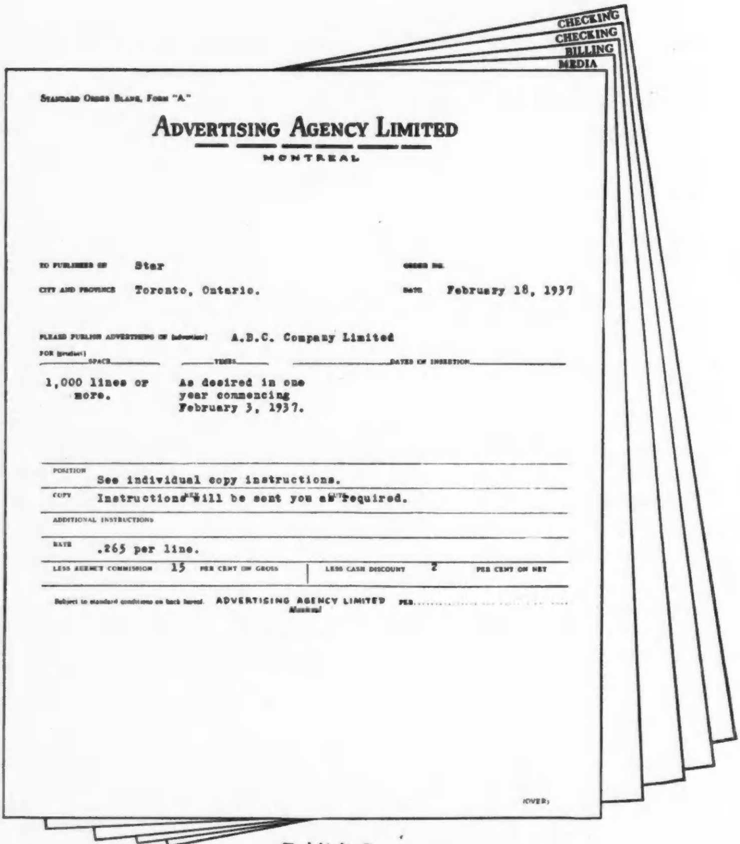
By Arthur E. Jubien, Chartered Accountant, Montreal

THE advertising agency is a type of business with which many accountants may have had little or no experience, and before proceeding to outline the accounting methods used therein it would be advisable first to outline the general method of operation of an advertising agency.

The function of an advertising agency is to study the market for the products of its clients, to develop advertising plans based upon the results of these studies, and to execute the plans. The studies will include the product itself, competing products, the distribution of the product, the most economical means of reaching the persons who will buy the product, and the form of appeal which is most likely to influence them.

When the necessary preliminary studies have been made and the general plan of campaign has been approved by the client, detail recommendations as to the media and the amount of space to be used are made up and submitted to the client for his formal approval. These are called estimates. As soon as an estimate has been signed by the client, the agency sends out contracts to the newspapers, magazines, or other proprietors of media. This work is done by the media department which prepares the necessary contracts (see Exhibit I) and forwards them in duplicate to the various publications with the request that one signed copy be returned to the agency, thereby accepting the contract. Four additional copies are prepared at the same time for the agency's own use; two copies going to the checking department, one copy to the billing department and one copy being retained in the media department. In the case of radio programs it is necessary for the radio department, or in cases where no radio department is maintained, for the media department to make arrangements for the use of station and network facilities and look after the engagement of talent for the program.

While the media department is making arrangements with publications, the art department will be working on designs and layouts and ordering drawings or photographs, and the copy department will be preparing suitable publicity



CHECKING
CHECKING
BILLING
MEDIA

Standard Order Blank, Form "A"

ADVERTISING AGENCY LIMITED
MONTREAL

TO PUBLISHER OF Star ORDER NO.

CITY AND PROVINCE Toronto, Ontario. DATE February 18, 1937

PLEASE PUBLISH ADVERTISING OF (advertiser) A.B.C. Company Limited

FOR (product)

SPACE	TIMES	DATES OF INSERTION
1,000 lines or more.	As desired in one year commencing February 3, 1937.	

POSITION See individual copy instructions.

COPY Instructions will be sent you as required.

ADDITIONAL INSTRUCTIONS

RATE .265 per line.

LESS AGENCY COMMISSION 15 PER CENT ON GROSS | LESS CASH DISCOUNT 2 PER CENT ON NET

Subject to standard conditions on back hereof. ADVERTISING AGENCY LIMITED Montreal PER............

(OVER)

Exhibit I
Contract Form.

matter or copy. Another department known as the production and forwarding or mechanical and traffic department takes the approved layouts, finished artwork and copy material and forwards this material to engravers, electrotypers, typesetters, etc., for the production of the plates, electros and matrices to be used in reproducing the advertisement. These are then forwarded to the publishers for reproduction in the various newspapers, magazines and trade journals.

Prior to this, full instructions pertaining to the date the advertisement is to be inserted, size of the advertisement, position, heading, and other details will have been forwarded to the publishers. In cases where the copy is not embodied in the plate or pattern but is to be set by the publication, this copy is forwarded along with the instructions set out above. These instructions referred to as "copy instructions" are set out on a special form (see Exhibit II) and four copies are usually made, the original being sent to the publication, one copy (in some instances two copies) to the checking department, one copy to the billing department and one copy being retained by the forwarding department.

All advertisements inserted by the agency must be carefully checked to see that they have been printed in accordance with the instructions issued and satisfactorily reproduced, and where errors or poor printing have occurred "make-goods" must be obtained. To enable the agency to maintain this check each publication is required to furnish the agency with one or two copies of each issue containing the advertisement. Instructions to this effect appear both on the contract and on the copy instructions forwarded to the publisher.

Once an advertisement has appeared in a publication, or a radio program put on the air, the agency may render an account to its client. This is done periodically, usually at the beginning of each month and the account would cover the advertising placed in the preceding month. In Canada the income of most advertising agencies comes primarily from commissions allowed to the agencies by proprietors of media: newspapers, magazines, radio stations and billboards. These commissions are granted because the advertising agency, over a period of time, has proven its ability to produce advertising which is sufficiently effective to encourage the spending of increasing sums in advertising—thus increasing the total revenue of the media proprietors—and because the advertising agency assumes the credit risk with respect to the advertising which it places.

Other sources of revenue of the advertising agency are commissions on the cost of artwork, engravings, electrotypes, and the services of radio talent, purchased by the agency for its clients, and fees charged for special services. The revenue from these sources, however, normally constitutes only a small part of the total revenue.

(Mech. 24)

ADVERTISING AGENCY LIMITED

MONTREAL, January 25 1937

D.

COPY INSTRUCTIONS

Advertising Department
"Star"
Toronto
Ontario

Please insert the enclosed copy for A.B.C. COMPANY LIMITED

following carefully the schedule and instructions given below.

Charge in accordance with contract now in force.

ISSUE	SPACE	COPY NO.	CAPTION	KEY NO.
1937				
Feb. 3	3x154L.	0000		
Mar.17	3x154L	0000		
Mar.31	3x154L	0000		
Apr.14	3x154L	0000		
Apr.28	3x154L	0000		

Proofs are attached. Mats of these advertisements from XYZ Electrotype Company, Montreal.

POSITION: Top of woman's page requested.

If matrix or electro measures less than space ordered use only necessary space, unless corner marks on proofs clearly indicate white space desired. We cannot allow for unnecessary white space above or below the advertisement.

Two copies of each issue of your publication containing the advertising should be sent in promptly to the [illegible], Montreal, Que., and also to the advertiser.

Advise us at once if instructions are not clear.

Subject only to rules and conditions adopted by the CANADIAN DAILY NEWSPAPERS ASSOCIATION, November 6th, 1935.

ADVERTISING AGENCY LIMITED

Per

Exhibit II

Copy Instructions.

The practice of handling cash discounts varies among agencies. Some agencies retain all cash discounts while others pass them on to their clients on the understanding that they pay their accounts promptly. In an agency where the accounts are paid promptly each month by its clients very little invested capital is required as the chief fixed investment of the agency consists of furniture and equipment.

The Accounting Department

The accounting department of an advertising agency and its work can be divided into four distinct divisions or operations. The first is the checking division, the second the billing division, the third the auditing or paying division and the fourth the general accounting division. Each of these operations will be treated in the order named.

Checking Division—As soon as the checking department receives its copies of the contracts and copy instructions they are attached to the checking cards (see Exhibit III). These checking cards are made out in duplicate for each publication, the even months being shown on one card and the odd months on the other. The purpose of this is to enable the checking department to work on one set of cards while the billing department is using the other set. This also explains why the checking department receives two copies of all contracts and also two copies of the copy instructions in instances where these instructions cover more than one month's insertions.

As the copies of newspapers or periodicals containing advertisements inserted on instructions of the agency are received from the publishers they are turned over to the checking department where the size of the advertisement is measured and the lineage placed on the checking cards under the insertion dates. The checkers watch at the same time to make sure that the position of the advertisement as inserted in the publication is that called for on the copy instructions, that the reproduction is satisfactory, and that the lineage measured agrees with the instructions allowing for a slight shrinkage in some instances. A difference in position is immediately drawn to the attention of the media department while a difference in lineage is shown on the checking cards so that the billing and paying departments will have knowledge of the difference in order to bill the

client and to pay the publisher only for the actual lineage used.

At this point it might be advisable to say a few words about measuring newspaper lineage or space. Old time advertising was set mostly in "agate" size type, i.e. a size of type which measured exactly 14 lines to the inch. Today there are many varied sizes of type being used in the printing of advertisements but, in order to have a uniform unit of measure, all sizes are reduced to terms of agate and the rates charged by newspapers are expressed as so much per agate line. Thus, instead of measuring an advertisement in inches, the general practice is to state its depth in agate lines and to multiply the number of lines in one column by

PUBLICATION Star, Toronto, Ontario ADVERTISER A.B.C. Company, Limited

February					April					June				
1	8	15	22	29	1	8	15	22	29	1	8	15	22	29
2	9	16	23	30	2	9	16	23	30	2	9	16	23	30
3 ✓ 460l	10	17	24	31	3	10	17	24	31	3	10	17	24	31
4	11	18	25		4	11	18	25		4	11	18	25	
5	12	19	26		5	12	19	26		5	12	19	26	
6	13	20	27		6	13	20	27		6	13	20	27	
7	14	21	28		7	14 ✓ 462l	21	28 ✓ 462l		7	14	21	28	

MISSING

ACCT. 10

Exhibit III
Checking Card

the number of columns. The copy instructions as shown by Exhibit II state the size of the advertisement as 3 x 154 lines, i.e. an advertisement three columns wide and 154 agate lines or 11 inches deep. When checkers are measuring newspaper advertisements they use a steel rule marked off in both inches and agate lines and they only have to multiply the depth in agate lines as shown on the rule by the number of columns to get the lineage figure to be placed on the checking cards. In the above illustration this would be 462 lines (3 x 154 lines). Magazine space usually is ordered in units of a page or a fractional part thereof and there is no measurement problem.

Billing Division—The work of the billing department centres around the contract ledger or billing ledger as it is sometimes known. This ledger is subdivided by clients and each client's section is subdivided by publications, with a separate page for each publication. A sheet from this ledger is shown as Exhibit IV. As soon as the billing department receives its copies of the contracts sent to the publications it enters the details in the contract ledger. Similarly the copy instructions are entered in the contract ledger as soon as they are received.

After the advertisements have been checked and the actual lineage noted on the checking cards, the cards are taken by the billing department and the measured lineage is entered in the ledger. At the same time the copy instructions are checked off to show that the advertisement has been run and that the measured lineage is in accord with the instructions. This gives an added check to the work of the checking department and in cases where it is omitted to make a note of a difference in lineage or the omission of an advertisement any such differences are thereby caught. Once the checking cards have been entered the next step is to total the lineage and extend the amount to be billed on the basis of the line rates shown at the top of the ledger, previously entered from the contracts. The cash discount and the amount due the publication are entered in their respective columns at the same time. These calculations are then checked by a different clerk in the same department and if found to be correct the ledger is turned over to the typist who makes out the invoices to the client. Four copies of each invoice are prepared, two of which are

ADVERTISER A.B.C. Company Limited PUBLICATION Star

ADDRESS 200 Zero St., Montreal, P Q. Toronto, Ont.

SPECIFICATIONS OF CONTRACT 1,000 lines or more commencing 2/3/37 PUB. DUE DATE 15th

DATE OF CONTRACT 2/3/37 PAY PUBLISHER .265 PER L LESS 15% COM. 2 % C.D. CHARGE ADVERTISER .265 PER L LESS .01% C.D.

MONTH 1937	INSTRUCTIONS	CHECKING: MONTH	1 / 17	2 / 18	3 / 19	4 / 20	5 / 21	6 / 22	7 / 23	8 / 24	9 / 25	10 / 26	11 / 27	12 / 28	13 / 29	14 / 30	15 / 31	16	BILLING: TOTAL SPACE	DATE	NO.	AMOUNT	C.D.	COST: DUE PUBLISHER	DATE PAID	REMARKS
Feb	462 3				460														460 l	3/1	M.1	121 90	2 07	101 84	3/15	
Mar	452 17, 462 31		✓														460		922 l	4/1	M.1	244 33	4 15	203 53	4/15	
Apr	462 14, 462 28													✓		✓			924 l	5/1	M.1	244 96	4 16	203 97	5/15	

Exhibit IV

Contract or Billing Ledger Sheet-

sent to the client and two kept by the agency. The copies retained by the agency show, in addition to the gross amount and cash discount, the cost or amount payable to the publications. One of the agency's copies is filed numerically and the other alphabetically with a separate folder for each client.

Another phase or aspect of the billing division has to do with the billing to the client of reproduction materials and expenses such as artwork, engraving, typesetting, expressage, etc. Before commencing the production of the plates, electros, etc. to be used in reproducing the advertisement a job number or production order is assigned to each job. This order, which is made out by the production department, shows the various stages of preparation work to be undertaken and a copy goes to the billing division. The ordering of the preparation work is carried out by the art department and the production department who issue individual orders to artists, engravers, etc., covering each stage of the work. The invoices covering such, when received from the artists and supply houses, are checked against the orders issued and also checked for price and extensions. They are then turned over to the billing division which first enters them in the production billing ledger (Exhibit V) and then files them in a "docket" bearing the client's name and the job number. When all the charges covering the work as set out on the job order have been accumulated they can be billed to the client.

Production billing differs in two ways from space billing; first, it is more or less a continuous process whilst space billing is usually done but once a month; second, reproduction materials are usually charged to the client at net cost plus a fixed percentage as commission, whereas space costs are billed at gross figures and the trade discounts allowed by the publications retained as the agency commission. Production invoices are first written out in draft form showing at the top the job number as well as the headline of the advertisement and the publication in which the advertisement appeared. The various charges are then listed in order under supporting headings, totalled, and the agency commission added thereto; any cash discounts applicable are shown. On the back of the draft copy is listed each supplier's invoice at cost with its ledger entry number.

Sheet No. 29 A.B.C. Company Limited

ENTRY No.	DATE 1937		PURCHASED FROM	ORDER No.	Billed	Amount		Billing	PAID
1-1	Jan	15	Montreal Art Co.	6808	2/16-#8	35.00			Feb 10
1-2		18	" " "	6812		42.00			Feb 10
1-3		20	Right Translation Bureau	6808	2/16-#8	5.00			Feb 10
1-4		24	Brown Electrotype Co.	6808	2/16-#8	24.97			Feb 10
1-5		26	" " "	6808	2/16-#8	20.16			Feb 10
1-6		31	" " "	6812		42.61			Feb 10
1-7		31	" " "	6812		30.24			Feb 10
	Feb	16			#8			85.13	
			Balance				2/28	114.85	

Exhibit V

Production Ledger Sheet -

After the draft invoice has been approved by the production manager and the account representative it can be typed. As in the case of space bills four copies of the invoice are prepared—two going to the client and two being retained by the agency. Copies of the suppliers' invoices are usually attached to the client's copies of the bill. The individual invoices as listed on the back of the draft bill are next marked off or "blackchecked" in the production billing ledger and the total cost of the invoice, exclusive of the agency commission, entered in the billed column showing also the invoice number and date. The items in the production ledger which have not been "blackchecked," or "open items," represent work still in production or work completed but not yet billed to the client.

Paying Division—After the billing department has rendered its space invoices to the client, the costs or amounts payable to the various publications are entered in the accounts payable records. These records may take various forms according to the size and requirements of each individual agency. Where the number of publications dealt with is numerous the visible record type of ledger is sometimes favoured. A sheet from this type of ledger is shown as Exhibit VI. If desired, the accounts payable ledger can be subdivided as between the various forms of media, such as newspapers, magazines, trade, agricultural and religious, radio and outdoor, with a separate control account in the general ledger for each type of media. This facilitates balancing the outstanding items at the end of each month.

The invoices received from the publications for space used show the lineage and amount for each client's advertisements separately; some publications issue a separate invoice for each account handled by the agency. These invoices are checked with the billing ledger to see that the rate charged by the publication is in accordance with the contract and also that the lineage and amount charged agree with that measured and calculated by the agency. The invoices are then sorted and filed under their respective payment dates. Most Canadian agencies have three regular payment dates each month—the 15th, 20th and 30th. A statement prepared by the agency showing the accounts included in the payment is usually attached to the cheque forwarded to the publication. Notations regarding incor-

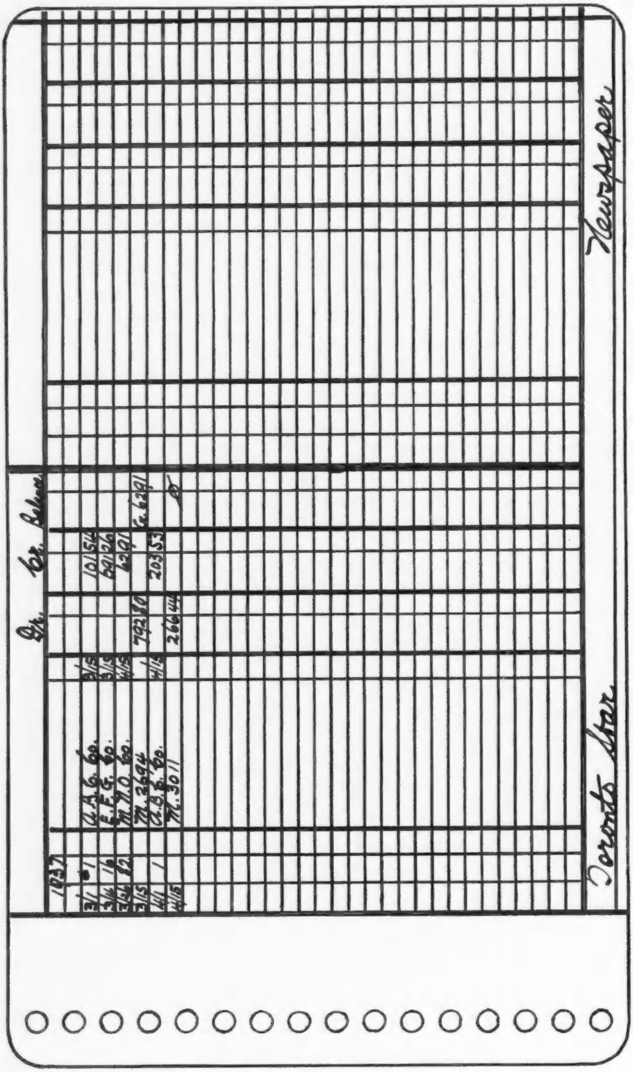


Exhibit VI
Accounts Payable Ledger Sheet

rect rates charged by the publication or differences in measured lineage can be shown on such a statement. In some agencies separate cheques, designated by different colours or different serial numbers, are used for media, production and expense payments. When this is done the counterfoils or duplicate cheque sheets serve as cash disbursement records in the case of media and production payments—the total for the month being a debit to accounts payable and a credit to cash in bank.

Payments for reproduction materials are usually made once a month, about the 10th or 15th. The statements received from the supply houses are checked with the invoices previously entered in the production billing ledger and in the case of any differences or missing invoices a notation thereof is made on the statement accompanying the agency's cheque. Payments covering the agency's own expenses, such as rent, telephone, stationery, supplies, etc., are generally made once a month, usually around the 10th. These payments are entered in a cash disbursement's book, usually a columnar one with columns for the various classifications of expenses.

General Accounting Division—The general accounting division of an advertising agency does not differ greatly from the similar division of any commercial business or industry. Its chief function is to group together through the medium of the general ledger the work performed by the other divisions or departments and to present the results of this work in the form of a balance sheet and accompanying statement of profit and loss. The accounts embodied in the general ledger may be classified as follows—

Assets

1—Cash in bank
2—Cash on hand
3—Petty cash imprest fund
4—Accounts receivable—Clients
5—Accounts receivable—Miscellaneous
6—Advance accounts
7—Notes receivable
8—Production account
9—Furniture and equipment
10—Deferred charges

Liabilities

21—Accounts payable—Space
22—Accounts payable — Production
23—Accounts payable—Radio
24—Accounts payable—Outdoor
25—Accrued liabilities
26—Reserve for depreciation
27—Reserve for taxes
28—Reserve for discount
29—Capital stock
30—Surplus account
31—Profit and loss account

Profit and Loss Items

101—Billing—Space
102—Billing—Production
103—Billing—Radio
104—Billing—Outdoor

111—Costs—Space
112—Costs—Production
113—Costs—Radio
114—Costs—Outdoor

121—Staff time charges
122—Service fees
123—Miscellaneous income
124—Interest on bank balances, etc.

131—Expense—Art department
132—Expense—Auditing
133—Expense—Bond premium
134—Expense — Carfare, messengers and taxis
135—Expense—Copy, composition and layout
136—Expense — Depreciation of furniture and equipment
137—Expense—Dues and subscriptions
138—Expense—Entertaining
139—Expense—Express and duty
140—Expense—Insurance
141—Expense — Interest and exchange
142—Expense—Legal fees
143—Expense—Light and heat
144—Expense — Media and forwarding departments
145—Expense—Miscellaneous office
146—Expense—New business
147—Expense—Postage
148—Expense—Rental
149—Expense—Repairs
150—Expense — Stationery and supplies
151—Expense—Taxes
152—Expense—Telephone and telegraph
153—Expense—Travelling

PERSONAL INCOME TAXES AND SUCCESSION DUTIES IN CANADA, GREAT BRITAIN AND THE UNITED STATES

By W. L. Gordon, Chartered Accountant, Toronto

PERSONAL income and estate taxes in Canada have increased considerably during the last eight years and, although we seem to have definitely emerged from the depression, there has been no move as yet towards reducing them. But the arguments for and against a reduction in these taxes do not come within the compass of this article in which it is intended merely to review the changes which have taken place since 1928 and to compare the present scale of tax rates in Canada with those prevailing in Great Britain and the United States.[1]

The taxes payable by individuals in Canada vary from one province to another and the same thing is true in the United States. Any comparisons which are made therefore are true only in so far as the taxes applicable in any one province or state are concerned. The taxes payable by residents of the city of Toronto have been used to illustrate the increases which have taken place in Canada since 1928 and the taxes payable by residents of Ontario and New York State respectively have been taken in comparing the present tax scale in Canada and the United States.

The income taxes payable by a married man with no dependents and not entitled to any other exemptions or deductions have been used in the comparisons of income taxes throughout. The taxes payable on estates transferred to the widow or to one child have been used in all comparisons of succession duties.

Increase in Personal Income and Estate Taxes Since 1928

In the year 1928 Dominion income taxes were based on a graduated scale of rates of from 2% on the first $2,000 of taxable income, to a maximum of 50% on all income in excess of $500,000. The tax calculated in this manner was subject to a reduction of 20%. A married man in 1928 was entitled to a deduction of $3,000 in arriving at his taxable income. The graduated scale of rates has been increased since 1928, the reduction of 20% eliminated and the de-

[1]As this article was prepared in January 1937, the comparisons are based on the rates in force in the year 1936.

duction for a married man has been reduced to $2,000. In addition, all "investment income" (which includes all unearned income and all income in excess of $14,000) is subject to a surtax, and an amount of 5% is added to both the tax calculated according to the graduated scale and to the surtax. The effect of these increases is shown in the following table.

Dominion Income Taxes

Gross Income	1928 Amount	1928 Percent. of net income	1936 Amount	1936 Percent. of net income
$ 5,000	$ 32	.64%	$ 126.00	2.52%
10,000	232	2.32	651.00	6.51
25,000	2,024	8.10	3,979.50	15.92
100,000	19,064	19.06	32,749.50	32.75
1,000,000	362,928	36.29	625,359.00	62.54

There was no provincial income tax in Ontario in 1928, but a resident of Toronto was subject to assessment on his income under the Ontario Municipal Act—the Toronto tax rate was 31.8 mills (for public school supporters). The Province of Ontario introduced an income tax act in 1936 but at the same time the Municipal Act was amended to exclude income so that the tax formerly paid the City of Toronto was discontinued. The combined Dominion and Province of Ontario income taxes in 1936, however, were substantially higher than the taxes on income levied by the Dominion and the City of Toronto in 1928; this is shown by the following table:

Gross Income	Dominion and City of Toronto income taxes 1928	Dominion and Province of Ontario income taxes 1936	Increase	Percentage of total income taxes to gross income 1928	1936	Increase percent.
$ 5,000	$ 95.60	$ 182.85	$ 87.25	1.91%	3.65%	91.27%
10,000	454.60	878.45	423.85	4.55	8.78	93.24
15,000	1,013.60	1,966.63	953.03	6.76	13.11	94.02
25,000	2,723.60	5,121.75	2,398.15	10.89	20.49	88.04
50,000	8,198.60	15,144.77	6,946.17	16.39	30.29	84.59
100,000	22,148.60	40,114.58	17,965.98	22.15	40.11	81.12
250,000	76,926.60	135,898.04	58,971.44	30.77	54.36	76.68
1,000,000	394,632.60	702,445.66	307,813.06	39.46	70.24	78.01
10,000,000	4,280,832.60	7,711,913.48	3,431,080.88	42.81	77.12	80.12

It will be seen that the income taxes have increased during the nine-year period 1928 to 1936 by from 94.02% on gross incomes of $15,000 to 76.68% on gross incomes of $250,000 and 78.01% on $1,000,000 incomes.

While the overall rates on any particular income as shown in the above table are fairly generally known the

taxpayer is frequently unaware of the rate which he would have to pay on the amount of an increase of say $1,000 in his income. This is shown for the year 1936 as follows:

Gross income	Percentage of total Dominion and Province of Ontario income taxes to gross income	Additional income taxes on increase of $1,000 in gross income	Percentage of additional taxes to increase in gross income
$ 5,000	3.65%	$ 96.33	9.63%
10,000	8.78	161.42	16.14
15,000	13.11	258.24	25.82
25,000	20.49	362.32	36.23
50,000	30.29	440.59	44.06
100,000	40.11	565.72	56.57
250,000	54.36	682.82	68.28
1,000,000	70.24	772.82	77.28

During the same period 1928 to 1936 the estate taxes or succession duties in Ontario were increased appreciably. This can be seen from the following table:

Gross Estate	Succession Duties 1928	Succession Duties 1936	Percentage of gross estate 1928	Percentage of gross estate 1936
$ 100,000	$ 5,500	$ 8,625	5.5%	8.63%
500,000	57,500	71,875	11.5	14.38
1,000,000	170,000	207,000	17.0	20.7
2,500,000	550,000	690,000	22.0	27.6
10,000,000	2,500,000	3,335,000	25.0	33.35
50,000,000	12,500,000	16,675,000	25.0	33.35

The increase in the income and estate taxes is perhaps brought home more forcibly by taking a hypothetical example of a man in possession of $2,000,000 on which he earns say 4½%. His income taxes and net income after taxes in 1928 and 1936 would have been as follows:

	1928	1936
Gross income—4½% of $2,000,000	$90,000.00	$90,000.00
Income taxes (Dominion and City of Toronto in 1927—Dominion and Provinces of Ontario in 1936)	19,032.51	34,651.15
Net income after taxes	$70,967.49	$55,348.85

Now suppose the man dies leaving his whole estate of $2,000,000 to his wife. The succession duties payable, the net amount which his wife would receive and the income taxes which she would have to pay if her capital returned the same 4½% and her net income would be as follows:

	1928	1936
Gross estate	$2,000,000	$2,000,000
Succession duties	400,000	494,500
Net amount receivable by wife	$1,600,000	$1,505,500
Gross income at 4½%	$ 72,000.00	$ 67,747.50
Income taxes (Dominion and City of Toronto in 1927—Dominion and Province of Ontario in 1936)	14,253.90	23,740.51
Net income after taxes	$ 57,746.10	$ 44,006.99
Percentage of net income after taxes to gross estate	2.89%	2.20%

It is not suggested for a minute that the wife cannot get along very nicely on an income of $44,000. The example is merely intended to show that in this particular case the net return from the inherited estate has been reduced from 2.89% to 2.20% through the increases in the taxes. This is a reduction of 23.79%.

Comparison of Personal Income and Estate Taxes in the Different Provinces in 1936

British Columbia was the first province to introduce an income tax as early as 1876; Manitoba, Prince Edward Island, Alberta and finally Saskatchewan and Ontario have since adopted the practice. There are no income tax acts in force in the provinces of Quebec, New Brunswick and Nova Scotia. In Ontario, Manitoba and Prince Edward Island the amount of the Dominion income tax may be deducted in arriving at the net income subject to the provincial income tax. No such deduction may be made in British Columbia, Alberta or Saskatchewan where a man's total income is subject to a double tax (Dominion and Provincial). This results in high total taxes on income in these three provinces, particularly on the higher income brackets; in an extreme case in Saskatchewan the combined Dominion and Provincial taxes would exceed the gross amount of the income.

The percentages of the total income taxes (Dominion and Provincial) to gross income are shown for each province in the following table for the year 1936:

Percentage of Dominion and Provincial Income Taxes to Gross Income

Gross Income	B.C.	Alberta	Sask.	Man.	Ont.	Quebec(2) New Brunswick and Nova Scotia	P.E.I.
$ 5,000	4.52%	4.02%	4.77%	5.65%	3.65%	2.52%	5.93%
10,000	11.56	11.41	11.39	11.84	8.78	6.51	11.18
15,000	18.34	17.37	17.41	17.08	13.11	9.94	16.24
25,000	28.80	28.85	28.33	25.94	20.49	15.92	24.32
50,000	41.91	45.32	42.57	37.52	30.29	23.92	31.53
100,000	55.74	58.45	58.46	48.33	40.11	32.75	39.47
250,000	72.41	74.69	80.00	63.13	54.36	46.41	51.77
500,000	82.78	84.92	91.99	72.25	63.62	55.78	60.20
1,000,000	90.04	92.11	100.07	78.41	70.24	62.54	66.28
2,000,000	93.67	95.70	104.11	82.09	74.01	65.92	69.32
5,000,000	95.85	97.86	106.53	84.46	76.34	67.95	71.15
10,000,000	96.57	98.58	107.34	85.24	77.12	68.62	71.76

(2) This does not include municipal income taxes.

The following comparison of net incomes after taxes in four of the provinces should give a sufficient example of the effect of these rates on higher income brackets:

Net Income After Income Taxes

Gross income	Alberta	Saskatchewan	Ontario	Quebec
$ 50,000	$27,340.50	$28,713.35	$ 34,855.23	$ 38,040.50
100,000	41,550.50	41,538.10	59,885.42	67,250.50
250,000	63,264.50	49,992.33	114,101.96	133,964.50
500,000	75,420.00	40,022.83	181,897.40	221,120.00
1,000,000	78,941.00		297,554.34	374,641.00

In Saskatchewan the net income after taxes on a $250,000 gross income would be approximately $50,000. The maximum possible net income after taxes is obtained from a gross income of something over $250,000. As the gross income increases above the maximum point the net income tends to decrease and is finally eliminated altogether when the gross income reaches the $1,000,000 mark. The net income after taxes from a $1,000,000 gross income in both British Columbia and Alberta would be slightly less than $100,000 or 10%.

A comparison of the percentages of estate taxes to gross estates is shown in the following table. It will be noted that on very large estates the succession duty rates are higher in Ontario than in the other provinces.

Percentage of Estate Taxes to Gross Estates

Gross Estate	B.C.	Alberta	Sask.	Man.	Ont.	Quebec	New-Bruns-wick	Nova Scotia	P.E.I.
100,000	3.75%	6.5%	5.5%	4.0%	8.63%	4.0%	3.3%	6.05%	5.0%
500,000	12.5	13.0	14.3	12.0	14.38	9.0	8.8	13.75	5.0
1,000,000	21.25	16.5	23.65	15.0	20.7	13.0	12.65	20.35	5.0
2,500,000	21.25	19.0	27.5	15.0	27.6	15.0	16.5	26.4	5.0
10,000,000	21.25	19.0	28.6	15.0	33.35	16.5	16.5	29.7	5.0
25,000,000	21.25	19.0	28.6	15.0	33.35	16.5	16.5	29.7	5.0
50,000,000	21.25	19.0	28.6	15.0	33.35	16.5	16.5	29.7	5.0
100,000,000	21.25	19.0	28.6	15.0	33.35	16.5	16.5	29.7	5.0

Comparison of Personal Income and Estate Taxes in England, the United States and Canada in 1936

Income taxes in Great Britain include a tax at the standard rate and a surtax. The standard rate for the year ending 5th April 1937 is four shillings and nine-pence in the pound or 23¾% (the rate is one shilling and sevenpence in the pound on the first £135 of income after deducting allowances); the surtax is applicable on all total incomes over £2,000 and is based on a sliding scale of from 5½% on the first £500 in excess of £2,000, to a maximum of 41¼% on all income in excess of £50,000.

The exemptions and allowances under the British Act are lower than in Canada and the United States. In Great Britain incomes which do not exceed £125 ($625) are exempt from tax. Personal allowances or deductions include:

1. One-fifth of "earned" income up to a maximum of £300
2. Four-fifths of wife's "earned" income up to a maximum of £45
3. One-fifth of "unearned" income in the case of taxpayers over 65 years of age, provided the income does not exceed (or only slightly exceeds) £500
4. Personal allowance—single £100
married £180
5. Children £60 each—this includes adopted children
6. Housekeeper £50—this depends on whether the taxpayer is a widower (or widow) or single and/or the relationship of the housekeeper
7. Dependent relatives £25
8. Daughter's services £25—in cases where the taxpayer is dependent on the services of a daughter resident with and maintained by the taxpayer
9. Life insurance premiums—if the policies were taken out after 22nd June 1916 relief or rebate is granted at two different rates as follows:
   (a) Where income is taxed at only one shilling and sevenpence in the pound—relief or rebate of one shilling and sevenpence on the amount of the premiums.
   (b) Where income is taxed at four shillings and ninepence in the pound—relief or rebate of two

shillings fourpence halfpenny on the amount of the premiums.

The allowance is higher if the policies were taken out up to and including 22nd June 1916. These allowances are restricted as follows (each premium being considered separately):

(a) To one-sixth of the total net income

(b) Seven percent. of the principal amount of the policy.

The above deductions are not allowable when computing surtaxes.

There are two main differences in the way in which taxable income is ascertained in Great Britain and Canada. The taxpayer in Great Britain is assessed not only on his actual income but also on the net rental value or the estimated net income which he could obtain from property owned and occupied by himself. There is no such assessment for income purposes in Canada or in the United States on owner-occupied property. A more important difference is the absence of double taxation on corporation earnings in Great Britain. Companies pay the normal rate of tax (four shillings and ninepence in the pound) on their net profits. The dividends paid out of such profits are not subject to a further assessment at the normal rate in the hands of the individual taxpayer, although the gross amount of such dividends (the amount received plus the tax on the proportionate amount of profits paid by the company) must be included in the taxpayer's total income subject to surtax. In Canada and the United States on the other hand, companies pay federal income taxes at the rate of 15% on their net profits; the dividends paid out of such profits are then taxable again in the hands of the individual shareholders.

There are no county or municipal income taxes in Great Britain comparable to the provincial and state taxes on incomes in Canada and the United States.

The basis of the Dominion of Canada income tax has been referred to; the exemptions and allowances include:

1. Personal allowance—single		$1,000
	married or householder	2,000
2. Children or grandchildren under 21		$400 each

3. Dependent relatives $400 each
4. Charitable donations not exceeding 10% of net taxable income
5. Depletion allowance of 20% of dividends received from producing mining companies.

In computing the net income liable to the surtax on "investment income" the following deductions may be made:

1. $5,000 or
2. "Earned income" up to but not exceeding $14,000 or
3. The total allowances for a single or married man and dependents referred to above.

Insurance premiums are not allowed as deductions either in Canada or the United States.

Income taxes payable to the United States Federal Government under the Revenue Act 1936 include a so-called normal tax of 4% on net income plus a surtax which is based on a sliding scale of from 4% on "surtax net income" in excess of $5,000 and not in excess of $6,000, up to 75% of "surtax net income" in excess of $5,000,000. Exemptions and deductions allowed in computing both the normal tax and surtax are—

1. Personal exemption—single		$1,000
	married	2,500
2. Dependents under eighteen years		400 each.

Deductions which may be made in computing income subject to normal tax (but not applicable when computing "surtax net income") include:

1. Interest on United States obligations
2. 10% of earned net income (maximum deduction under this heading is $1,400).

Perhaps the major difference between the income taxes in the United States and those in Great Britain and Canada is that capital gains are included in arriving at the taxable income in the United States and conversely capital losses are deductible. Capital gains and losses are not taken into account in calcultating taxable income in Great Britain and Canada.

New York State income taxes (which may be deducted from gross income when computing net income subject to Federal income tax) run from 2% on the first $1,000 of

taxable net income to 7% on all taxable net income in excess of $9,000. There is also an Emergency Tax of 1% of the taxable net income. No income tax is levied by New York City.

The following table shows the percentages of the total income taxes to gross (taxable) income at the present time in Great Britain, the United States (and New York State) and the Dominion of Canada (and Province of Ontario) but it is difficult to compare accurately the income taxes applicable on the same amounts of income in the three countries owing to the differences in the ways in which taxable income is arrived at. In practice the comparison would be more favourable to Great Britain than the table indicates if any dividends from incorporated companies were included in the income and less favourable to the United States in the matter of capital gains.

Percentage of Income Taxes to Gross Income

Gross income	Great Britain	United States and New York State	Canada and Ontario
$ 5,000	17.34%	3.73%	3.65%
10,000	20.54	7.87	8.78
15,000	23.67	10.95	13.11
25,000	29.20	15.16	20.49
50,000	38.30	22.75	30.29
100,000	46.84	35.62	40.11
250,000	55.54	54.0	54.36
500,000	58.39	63.05	63.62
1,000,000	59.82	69.82	70.24
2,000,000	62.41	74.29	74.01
5,000,000	63.96	77.54	76.34
10,000,000	64.48	79.07	77.12

The taxes in Great Britain on the lower group incomes are considerably higher than in either Canada or the United States. The taxes on incomes of $500,000 and over are lower in Great Britain, however, than they are in either of the other two countries. This is even more the case than the table indicates if the income includes dividends from incorporated companies. Suppose for example that of the taxpayer's total income of $500,000 or $1,000,000 respectively, seventy-five per cent. is represented by dividends from corporations other than mining companies and that in addition to his regular income the taxpayer has made capital gains of $100,000 or $200,000 respectively. The total taxes paid would be as follows:

	Great Britain	United States and New York State	Canada and Ontario
$500,000 incomes			
Dividends received	$375,000	$375,000	$375,000
Other income	125,000	125,000	125,000
Total income	$500,000	$500,000	$500,000
Capital gains	100,000	100,000	100,000
Total	$600,000	$600,000	$600,000
Taxable income	$500,000	$600,000	$500,000
Tax paid by companies on profits applicable to dividends received by taxpayer	(4)	$ 66,176(5)	$ 66,176.00(5)
Tax paid by taxpayer	$291,963.64	390,513	318,102.60
Total taxes	$291,963.64	$456,689	$384,278.60
Total profits of companies plus other income and capital gains of taxpayer	$600,000.00	$666,176	$666,176.00
Total taxes paid by companies and taxpayer.	291,963.64	456,689	384,278.60
Percentage of total tax to total profits of companies plus other income and capital gains of taxpayer ..	48.66%	68.55%	57.68%

(4) This tax is deducted by the companies but the taxpayer is given credit for it. The total amount is included with the taxpayer's tax in the above example.

(5) These taxes do not include the corporation income taxes payable to the State of New York and to the Province of Ontario.

	Great Britain	United States and New York State	Canada and Ontario
$1,000,000 incomes			
Dividends received ...	$ 750,000	$ 750,000	$ 750,000
Other income	250,000	250,000	250,000
Total income	$1,000,000	$1,000,000	$1,000,000
Capital gains	200,000	200,000	200,000
Total	$1,200,000	$1,200,000	$1,200,000
Taxable income	$1,000,000	$1,200,000	$1,000,000
Tax paid by companies on profits applicable to dividends received by taxpayer	(6)	$ 132,352.00(7)	$ 132,352.00(7)
Tax paid by taxpayer..	$ 598,213.64	855,051.50	702,445.66
Total taxes	$ 598,213.64	$ 987,403.50	$ 834,797.66

Total profits of companies plus other income and capital gains of taxpayer	$1,200,000.00	$1,332,352.00	$1,332,352.00
Total taxes paid by companies and taxpayer	598,213.64	987,403.50	834,797.66
Percentage of total tax to total profits of companies plus other income and capital gains of taxpayer	49.85%	74.11%	62.66%

(6) This tax is deducted by the companies but the taxpayer is given credit for it. The total amount is included with the taxpayer's tax in the above example.

(7) These taxes do not include the corporation income taxes payable to the State of New York and to the Province of Ontario.

Both the United States Federal Government and the New York State authorities collect estate taxes. In Canada such taxes are only levied by the provincial governments.

Succession duty taxes in Ontario are lower than the estate taxes in Great Britain. The estate taxes collected in the United States from the larger estates are considerably greater than the comparable taxes in either Ontario or Great Britain. This is shown by the following percentages of the estate taxes to the amount of the gross estate in the three countries:

Amount of estate	Great Britain	Ontario	United States federal and New York State
$ 100,000	8.92%	8.63%	4.20%
500,000	19.81	14.38	16.58
1,000,000	24.76	20.70	21.93
2,500,000	32.68	27.60	34.68
10,000,000	45.55	33.35	52.04
25,000,000	50.5	33.35	63.81
50,000,000	50.5	33.35	68.40
100,000,000	50.5	33.35	71.20

As stated at the beginning it is not the intention in this article to review the arguments for and against a reduction in income and estate taxes. It suffices to say that there appears to be little likelihood of any substantial reduction in the near future, and that if and when any upward revision is contemplated the implications of increasing the scale of rates in the higher brackets should be carefully canvassed before action is taken.

THE VALUATION OF GOLD

Professor J. P. Day
McGill University, Montreal

THE question of the monetary value of gold stocks does not truly arise so long as a country is on the gold standard, for in that case the gold is not worth a certain sum in money; rather, it is money itself. It is true gold did not circulate as legal tender until it had been minted by the Government, but the only problem before the Government was just how many grains they should take, what design should they choose, and what name should they give to the resulting coin. The British took 113.0015 grains of pure gold, added an insignificant amount of alloy for technical reasons, and called the coin a sovereign. As a result, an ounce of standard gold was the equivalent of £3.17.10½, but 'equivalent' is not really the precisely correct word. It is not that the two things were equal in value but that they were identical in composition, or at least would have been had the £3.17.10½ been a mintable coin. The true relation is more clearly appreciated if we take larger amounts; thus 480 ounces troy were minted into 1869 sovereigns, and the fact was not that 480 ounces were worth £1869 but that they actually were the same thing. It is important to realize this because people got so accustomed to quoting the mint parity that unconsciously they slipped into thinking that the value of an ounce of gold was £3.17.10½. The United States chose a different number of grains, 23.22, and gave the result a name of its own, the dollar. At this rate an ounce of gold was $20.67, which is, again, more easily understood if we say that a thousand ounces of gold were 2067 gold eagles. It is no question of a price of gold but only of choosing a name for a certain amount of gold minted in a certain way.

If, however, a country went off the gold standard, its paper money was no longer interchangeable with gold at a fixed rate. The name pound or dollar, or whatever it might be, was retained but it meant something else, and it was natural to try to compare the depreciated value of the paper unit with the former gold value. Thus one would find quoted the gold values of depreciated currencies and people thought of the gold value of the paper. In so

far as they thought of the value of any gold their country might possess, they regarded it as unchanged; the only change was, in their minds, in the value of their paper money.

Today, with the practical abandonment of the gold standard, with many countries nationalizing gold stocks, or, as in Britain, having the legal power to do so at any time, and with the export of gold usually controlled by the Governments, the situation is changed. People are forgetting or not worrying about what their money is worth in terms of gold. The majority of us never wanted gold anyhow, and the few who dealt in buying and selling it now find their activities considerably circumscribed. The paper money has become the focus of interest and its gold equivalent is left to the experts to worry over. The interest has changed from considering what a currency is worth in terms of gold to a consideration, usually by the Government, of what their gold stocks are worth in paper money. The same ratio answers both questions, but there is a difference in attitude which may have significance. Few people in the United States know today what a dollar is worth in terms of gold compared to the many who know that an ounce of gold is worth $35. The old idea was that you might change the value of your money by depreciation and abandonment of the gold standard but you could not change the value of gold. Today the idea seems rather that you can make the value of your gold stocks whatever you like and the problem is what value should you put on them.

The purpose of this article is to give an account of how some of the leading countries have decided to value their gold stocks and to suggest some thoughts that arise out of a consideration of the differing methods.

The Canadian Method

The most reasonable method seems, at first sight, to be to take the market value. So long as there is a free market for gold bullion in some centre such as London, one can take the London price of gold and use the ratio of sterling exchange to obtain the corresponding price in other countries. That, however, does not mean that this is the price at which the Government could sell all its gold if it desired to do so; any tendency of a Government to unload its gold stocks on the market would depress the

price at once. The method of using the market price as a means of valuing the gold stocks has been adopted by Canada. The Dominion Government has not altered the gold content of the dollar. There was less need to bother about that, since practically no gold circulates in Canada. The authority to mint and issue gold coins was only conferred in 1910, and between 1912, when they were first issued, and 1919 only the equivalent of $4,868,420 was struck, and no gold coins have been struck by the Ottawa Mint since 1919. It was the Exchange Fund Act of July 1935 which ordered the Bank of Canada to revalue its gold holdings at the current market price and to transfer the resulting nominal profit to the credit of the Minister of Finance. The chartered banks received a small portion of the profit based on the appreciation of the gold, held against liabilities abroad, which they had transferred to the Bank of Canada when it started. As a result of the Act, the weekly return of the Bank of Canada for the tenth of July shows a write-up of the value of the gold stocks from 106 to 180 million dollars. Most of the difference was credited to the Minister of Finance. The objections which a Central Bank might reasonably have to being compelled to write up any of its assets and hand over the increase to somebody else was met by putting the amount into a Special Fund which does not appear in the Bank's subsequent returns. This fund constitutes an Exchange Equalization Fund and may be used by the Minister, in specified ways, for the purpose of endeavouring to control the external value of the Canadian dollar or of checking undue fluctuations in its exchange value. Subsequent profits or losses are credited or debited to this special account.

The market price which the Bank takes from week to week to value its gold stocks is the London or New York price, whichever may be higher. If the market price falls, the Bank writes down the value and recovers the amount from the special fund; if the price rises, the Bank pays the difference in to the fund. Supposing, for the sake of illustration, that the market price fell all the way from the level of July 1935 to the old $20.67 an ounce, all that would happen, on the assumption that the special fund had not been used, is that the fund would be gradually wiped out and the Minister would find that he would then not have

what today he thinks he has. If, however, in the meantime, he had been using the fund, he might have made a profit or a loss, but in neither case would the Bank of Canada be affected.

The British Method

Contrast with the above, the method adopted by Great Britain. In September 1931 the British Parliament passed an Act suspending the obligation on the Bank of England to sell gold at the fixed parity of £3.17.10½ an ounce. The gold content of the sovereign was not changed, the Bank has not been required to write-up the value of its gold stock, nor has it done so. The mint parity of £3.17.10½ a standard ounce 11/12 fine corresponds to 84 shillings an ounce of fine gold, so that, taking the market price of fine gold as around 142 shillings an ounce today, the £300 millions of gold in the Bank of England could be written up to 507 millions. Why has the Bank not done so? I can only suggest that the Bank prefers to be on the safe side; it may, not without reason, regard the present price of gold as artificially high and it knows, anyhow, that it could not hope to sell much of the gold without depressing very much the price. The Bank, not knowing what gold is to be worth in the future—which, presumably will eventually be decided by international agreement—prefers to carry its stock at the old price, until this settlement takes place. The probability is that the Bank will never have to write down its stock of gold below the present figure, but may some day find itself completely justified in writing it up to some future stabilized value, the outcome of a more or less remote international agreement. Meantime the Bank remains in a much stronger position than the figures alone would indicate. The British, of course, have an Exchange Equalization Fund, but the resources for that were supplied by the Government.

The United States Method

Turn now to the United States. If Britain values her gold below market price and Canada hers at market price, the United States, one might almost say, value their gold at above market price, but only in the sense that, being willing to pay a higher price, they raise the market price to their figure. Surely this diversity of method in valuing gold stocks is rather extraordinary: it ought to prove an-

noying to our accountant readers, because one would suppose there must be one correct way and not three. Gold was nationalized in the United States under the authority of the Emergency Banking Act of March 1933. Power was given to the President by the Thomas amendment to the Agricultural Adjustment and Emergency Farm Mortgage Act of May 1933 to reduce the gold content of the dollar by not more than 50%; the Gold Reserve Act of 30th January 1934 ordered the President to revalue the dollar at not more than 60% of its former weight and on the following day the weight was reduced to 59.06% of its former weight. This corresponded to valuing an ounce of gold at $35, which was much above its real value. Thirty five United States dollars for an ounce of gold was a bargain to anyone who had gold or could get it. In the main it was only obtainable from the mines or from countries still on the gold standard, of which France was the most important. A flow of gold to the United States at once set in, driving up the London insurance rates for gold shipments from one shilling per £100 to fifty shillings. As people bought francs to change into gold for shipment, the franc rose, until by mid April the cost of the franc neutralized the bargain price of the dollar, but by then 700 million dollars worth of gold had crossed the Atlantic. Broadly speaking, the United States price has remained the highest offer for gold, and the proof is in the steady drift of gold to that country.

	Estimated World Production	Net Imports into the United States
	(in millions of dollars at $35 an ounce)	
1934	958,033	1,131,994
1935	1,050,042	1,739,019
1936	1,189,828	1,116,584

The motive behind this purchase of gold seems to have been less the desire to obtain gold than the wish to cause commodity prices to rise inside the United States and so help industrial activity and employment. The inflationary policy of the Roosevelt Government in pouring out money had not resulted at that time in rising prices because American citizens were afraid to use the money either to buy commodities or to invest in productive enterprises; generally speaking, the additional money merely accumulated in the banks. Hence it was thought that if their own people would not use dollars to buy goods, the foreigner might. But he

had to have the dollars first. The sensible plan would have been to have bought his goods, through a lowering of the tariff, and thus give him the dollars in exchange. This, however, ran up against a protectionist psychology and as an alternative it was decided to buy his gold. He would then get dollars and with them buy American products; the American exporters would have more money to spend and would buy more home products, and hence prices both of export and domestic goods would tend to rise.

Whatever the motive, the result was the accumulation in the United States of half the world's monetary stock of gold. It is no use to them; the people—not that they want it—are not allowed to have it; the Government is busy burying it at Fort Knox, and the gold is still coming in. It seems that the United States Government is at last realizing the futility of acquiring unwanted masses of bullion. The ridiculous silver buying policy, which drove the price of silver up from 43 cents an ounce at the end of 1933 to 81 cents in April 1934 was quietly abandoned, with the result that the market price fell all the way back to its former level. To abandon the gold buying policy is not so simple. It has been obvious for a long time to those who cared to see it that the policy of exchanging useful American products or valuable American securities for useless gold is of no advantage to the United States, however it may help the American exporter. What, however, seems to have impressed the United States Government more is that the money they have paid and are paying for the imported gold has been and is piling up as large excess reserves in the banks of the country, thus forming a formidable base for credit expansion when confidence fully returns to the business world and threatening a tremendous inflationary boom.

Future Action of the U.S. Government

Under these conditions it is interesting to consider what the United States Government might do. The possibilities seem to be four, since surely we can dismiss the vain hope which some speculators seem to have that the President might again boost the price of gold.

(1) To reduce the price of gold. The mere rumour this April that this was contemplated caused a flurry in the markets and had to be denied by the President. In any

case, the existing powers of the President would only permit him to reduce the value from $35 to $34.45.

(2) To maintain the nominal value, but to cease buying. We have seen what happened when the United States ceased to buy silver, the price was practically cut in half. If the refusal to buy gold was partial—a willingness to continue to buy direct from the mines but a refusal to buy from the open market—the result would be less drastic, but in either case the real danger is from the hoarded gold. Any announcement that the United States would not freely buy gold at $35 ounce—or cessation without announcement—would cause an immediate considerable decline in the London price of gold bullion. The gold hoarders, realizing that gold was definitely on the decline, would try and unload at once at the highest peak and there would be an avalanche of selling. It is impossible to state how much gold is held by private hoarders throughout the World but the most reliable estimates put it at least at one billion dollars at the old valuation of $20.67 to the ounce, nearly half a million ounces.

(3) To continue buying all gold offered at the present price, but to attempt to neutralize its effect on the volume of money in the country. This is, in fact, the announced policy, for on 21st December 1936 the Secretary of the Treasury said the Treasury "proposed, whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department. This will be accomplished by the sale of additional public-debt obligations, the proceeds of which will be used for the purchase of gold, and by the purchase or redemption of outstanding obligations in the case of movements in the reverse direction." The idea here is that if the United States Government has to go on buying gold, nevertheless they can try to prevent that piling up of money in excess bank reserves which increases potential inflation. Now, when they buy gold, the money paid is additional money, but if at the same time they draw out of circulation and keep idle an equivalent amount of money by selling Government obligations, the effect of the influx of gold on the monetary volume in the hands of the public is neutralized. This in theory is true; in practice it will run up against

these two difficulties. The first is the apparent absurdity of a Government, already having a budget deficit, borrowing more money in order to do nothing with it, for the essence of the plan is that the money should be kept idle and not used. The second difficulty is to find a buyer for the Government obligations. In better times the public buy common stocks rather than Government bonds. It is well known that the banks in the United States are overloaded with Government securities and, far from being willing to buy more, they are endeavouring to unload. During the last half of 1936 this unloading was mainly confined to member banks in New York City but it has now spread over the country and from the beginning of this year up to 24th March the amount of U.S. Government securities held by reporting member banks declined by 545 million dollars, of which 370 millions were in the last three weeks of the period. By the 17th March the index number for U.S. Treasury bonds due or callable after eight years, which had been 108.2 in November, had fallen to 104.4 It would appear, therefore, that any future issues by the Government will have to be on more attractive terms, but this would lead at once to a readjusting fall in the price of existing issues and impart an even greater stimulus to the unloading. This effect might be checked by the Federal Reserve Banks recommencing to buy, which we are told is to happen, and thus supporting the price. The Federal Reserve Banks have been out of this market for several years with a constant holding of 2430 million dollars' worth, but as they begin to buy they will add to the money in circulation in the country which is precisely what the Treasury policy of December was intended to prevent.

Two other actions by the Government can conveniently be mentioned here. One is the endeavour to keep out foreign funds by differential taxation against the foreign investor in American enterprises, to which may be added the effort to drive off 'hot' money. The second is the impounding of money in the legal reserves of the member banks, which reserves by 1st May will have been doubled, but the Board of Governors of the Federal Reserve System have no power to increase the reserve ratios any further.

(4) To do nothing, but wait for the influx of gold to be turned through rising commodity prices, the main diffi-

culty then being the fear of commodity prices running right away once they got really going. The $35 an ounce price of gold draws gold to the United States because $35 will buy more in the United States than an ounce of gold could buy elsewhere. The buying may be of commodities, of securities, or of safety. As prices rise in the States—and the index number for wholesale prices has risen from 79.6 in March 1936 to 87.6 on 20th March 1937—the $35 becomes less attractive. The reaction in the London bullion market would be that people would not be willing to pay as much as before for gold. One would expect the sterling price of gold to have fallen already but for another consideration. As prices rise in the United States profits tend to rise. It is true raw material costs will go up too, and also that the increase in the cost of living will cause industrial troubles which may lead to wage increases. But for the moment better profits may be expected. The index number for common stocks has risen from 109 in March 1936 to 130 in March 1937. There is an inducement to send funds to the United States for investment, especially from countries whose own industrial future is suspected of being on the decline or threatened by political troubles. If and when foreign buying of American dollars for investment falls off—considerations of the possibility, probabality and time of which are too involved for discussion here—the fall in the purchasing power of the dollar over American goods must have its influence on the gold price and flow. Certainly the London price of gold will fall, or, to be more guarded, the unquotable real value of gold will fall; the London price may keep up if the paper pound itself depreciates through armament borrowings. What you would get for your ounce of gold might still be $35 or 142 shillings, but neither would buy you so much in commodities.

A point of considerable interest is, if gold falls, either because the United States cease buying or because the $35 loses purchasing power, are there any other buyers whose bids would check the fall and what is the best price they would offer? It would seem that we can rule the private hoarder out; he would not buy gold once it showed a serious tendency to fall in value. The industrial arts would take a little more but not enough to be of any significance. As to the Central Banks, the Bank of England has more gold

than it ever had, and much more if the written-up value were taken; the Bank of France has all the gold it needs provided it can keep what it has got; the Bank of the Netherlands has already lowered its buying price for gold, and the Swiss National Bank only buys gold under special agreement. Germany may prefer guns to butter, but one imagines she would prefer butter to gold.

SOME RECENT DOMINION LEGISLATION

1. Re The Business Profits War Tax Act, 1916

The following Act to revise and amend *The Business Profits War Tax Act, 1916,* was passed by the Parliament of Canada on 2nd April 1937:

"His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

"1. Notwithstanding the provisions of sections two and five of chapter sixty-five of the statutes of 1924, entitled 'An Act respecting the Revised Statutes of Canada,' and the inclusion in Schedule A to the certified printed roll of the Revised Statutes of Canada, 1927, of *The Business Profits War Tax Act, 1916,* and of the amendments thereto, the said *The Business Profits War Tax Act, 1916,* and all amendments thereto, are hereby revived and shall have the same force and effect to all intents as if the said Revised Statutes of Canada, 1927, had not come into force and taken effect as law; and all proceedings, transactions, matters or things, had, done, made or completed, or purporting to have been had, done, made or completed under and in accordance with the provisions of *The Business Profits War Tax Act, 1916,* and the amendments thereto, on or after the first day of February, one thousand nine hundred and twenty-eight, are hereby validated.

"2. The provisions of *The Business Profits War Tax Act, 1916,* relating to the procedure for appeals from assessments made thereunder, the appointment and powers of a Board of Referees to hear and determine such appeals, and to appeals from the decisions of the Board, namely; paragraph (b) of section two, section nine, the words 'or from the decision of the Board,' at the end of subsection three of section thirteen, sections fifteen, seventeen, eighteen, nineteen, twenty and twenty-one, and

Forms I, L and M of the schedule of the said Act, are hereby repealed.

"3. The provisions of the *Income War Tax Act*, chapter ninety-seven of the Revised Statutes of Canada, 1927, relating to appeals from assessments thereunder and the procedure connected therewith, namely, sections fifty-nine, sixty, sixty-one, sixty-two, sixty-three, sixty-four, sixty-five, sixty-six, sixty-seven and sixty-nine shall apply, *mutatis mutandis*, to and in respect of appeals from assessments made under *The Business Profits War Tax Act, 1916*, and to the hearing and determination of such appeals; and *The Business Profits War Tax Act, 1916*, shall be construed and applied as if it contained the sections of the *Income War Tax Act* aforementioned, with any necessary substitutions or adaptations of the terms thereof.

"4. The provisions of sections two and three of this Act shall be deemed to have come into force on the first day of January, 1937, and shall be applicable to and in respect of all appeals under *The Business Profits War Tax Act, 1916*, then pending or thereafter instituted."

2. The Gold Clauses Act, 1937

The following Act respecting gold clause obligations was passed 8th April 1937:

"His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

"1. This Act may be cited as *The Gold Clauses Act, 1937*.

"2. The expression 'gold clause obligation' in this Act means any obligation heretofore or hereafter incurred (including any such obligation which has, at the date of the commencement of this Act, matured) which purports to give to the creditor a right to require payment in gold or in gold coin or in an amount of money measured thereby, and includes any such obligation of the Government of Canada or of any province.

"3. In the case of any gold clause obligation payable in money of Canada, tender of currency of Canada, dollar for dollar of the nominal or face amount of the obligation, shall be a legal tender and the debtor shall, on making payment in accordance with such a tender, be entitled to a discharge of the obligation.

"4. In the case of any gold clause obligation governed

by the law of Canada payable in Canada or elsewhere, in money other than money of Canada, tender of the nominal or face amount of the obligation in currency which is legal tender for the payment of debts in the country in the money of which the obligation is payable shall be a legal tender and the debtor shall, on making payment in accordance with such a tender, be entitled to a discharge of the obligation.

"5. Any payment in respect of a gold clause obligation made before the commencement of this Act, which, if made hereafter, would entitle the debtor to a discharge, shall be deemed to have discharged the obligation.

"6. Every gold clause obligation is hereby declared to be contrary to public policy and no such provision shall hereafter be contained in, or made in respect of, any obligation.

"7. The provisions of this Act shall have full force and effect notwithstanding anything contained in any other statute or law."

3. Convention Concerning Rates of Income Tax

The following Convention between Canada and the United States of America concerning rates of income tax imposed upon non-resident individuals and corporations was signed at Washington, 30th December 1936, and was approved by the Parliament of Canada on 25th March last. It now awaits the formal approval of the Government of the United States.

"The government of Canada and the government of the United States of America, being desirous of concluding a reciprocal convention concerning rates of income tax imposed upon non-resident individuals and corporations, have agreed as follows:

ARTICLE I

"The high contracting parties mutually agree that the income taxation imposed in the two states shall be subject to the following reciprocal provisions:

"(a) The rate of income tax imposed by one of the contracting states, in respect of income derived from sources therein, upon individuals residing in the other state, who are not engaged in trade or business in the taxing state and have no office or place of business there-

in, shall not exceed five per centum for each taxable year, so long as an equivalent or lower rate of income taxation is imposed by the other state upon individuals residing in the former state who are not engaged in trade or business in such other state and do not have an office or place of business therein.

"(b) The rate of income tax imposed by one of the contracting states, in respect of dividends derived from sources therein, upon non-resident foreign corporations organized under the laws of the other state, which are not engaged in trade or business in the taxing state and have no office or place of business therein, shall not exceed five per centum for each taxable year, so long as an equivalent or lower rate of income taxation on dividends is imposed by the other state upon corporations organized under the laws of the former state which are not engaged in trade or business in such other state and do not have an office or place of business therein.

"(c) Either state shall be at liberty to increase the rate of taxation prescribed by paragraphs (a) and (b) of this article, and in such case the other state shall be released from the requirements of the said paragraphs (a) and (b).

"(d) Effect shall be given to the foregoing provisions by both states as and from the first day of January, nineteen hundred and thirty-six.

ARTICLE II

"The provisions of this convention shall not apply to citizens of the United States of America domiciled or resident in Canada.

ARTICLE III

"This convention shall be ratified and shall take effect immediately upon the exchange of ratifications which shall take place at Washington as soon as possible.

"Signed, in duplicate, at Washington by the duly authorized representatives of Canada and the United States of America, this thirtieth day of December, in the year of our Lord, one thousand nine hundred and thirty-six.

"For Canada:

(L.S.) HERBERT M. MARLER, *Envoy Extraordinary and Minister Plenipotentiary*

"For the United States of America:

(L.S.) R. WALTON MOORE, *Acting Secretary of State.*"

GENERAL NOTES

Annual Meeting of the Association

The Thirty-Fifth Annual Meeting of The Dominion Association of Chartered Accountants will be held at the Georgia Hotel, Vancouver, British Columbia, August 16th to 19th inclusive. The executive committee of the Association will meet on Monday morning the 16th, and the council on Monday afternoon and all day Tuesday. The general sessions will be held on Wednesday and Thursday for the reception of the reports of committees and the presentation and discussion of technical papers. It is anticipated that on Friday the members will visit Victoria where some features of entertainment will be provided.

The Committee on Arrangements of the Institute of Chartered Accountants of British Columbia has plans well under way for making this year's annual meeting a most enjoyable and profitable one for all who can attend. A fine programme of entertainment is being arranged, and the Committee is hopeful that since August is a holiday month many members of the Association will be in attendance to take advantage also of the numerous opportunities which British Columbia offers for an enjoyable holiday.

The programme of this year's meeting will be announced well in advance.

Our Contributors This Month

PROFESSOR JOHN P. DAY of McGill University is already well-known to the readers of THE CANADIAN CHARTERED ACCOUNTANT for his contributions to economic thought. This month he discusses a subject which is demanding the most serious consideration of some governments today — the valuation of the world's stocks of gold.

WALTER LOCKHART GORDON who writes on personal income taxes and succession duties this month was born in Toronto. He is a graduate of Upper Canada College and of the Royal Military College, Kingston. In 1927 he became registered as a student with the Institute of Chartered Accountants of Ontario and after passing the examinations became a member of the Institute in 1931. As a student he served in the office of Clarkson, Gordon, Dilworth and Nash, and was admitted to partnership in the firm in 1935.

ARTHUR EDWIN JUBIEN, who writes on the accounts of an advertising agency, was born in Middlesex, Nova Scotia.

After attending high school in St. John's (Newfoundland), Newcastle (New Brunswick) and Halifax, (at which places his father had been bank manager) he entered Dalhousie University and graduated in 1927 with the degree of Bachelor of Commerce. He served his apprenticeship with the firm of Crowell, Balcom & Co., chartered accountants, Halifax; and after passing the final examination of the Institute of Chartered Accountants of Nova Scotia, joined the staff of Price, Waterhouse & Co., Montreal. In 1935 he accepted his present position with a well-known national advertising agency.

William George Leonard, whose essay on the accounts of life assurance companies is published this month, was born in the village of Odessa, Ontario, in 1911. He received his high school education at Kingston Collegiate Institute. After obtaining honour matriculation, he worked for two years in a bookstore and spent his evenings in the extramural studies provided by the Arts Faculty of Queen's University. In 1929 he entered the office of Burns and England, chartered accountants, Kingston, as a student and having successfully passed the examinations of the Institute of Chartered Accountants of Ontario was admitted a member in February 1935.

George C. McDonald of Montreal, President of The Dominion Association of Chartered Accountants in 1933-34 and a distinguished member of our profession, has contributed to our pages on a number of occasions. This month he discusses a subject in which members of the accountancy profession and all those giving thought to public affairs in the Dominion today have more than ordinary interest —the public accounts of Canada.

The Chartered Accountants in Ireland

We acknowledge receipt of the 1937 Year Book of the Institute of Chartered Accountants in Ireland. The Institute, which was incorporated by Royal Charter on 14th May 1888, had at 20th November last, 375 members, of whom 94 were Fellows and 281 Associates. Of the total membership, 175 are in practice. The President is Hugh Boyd, Belfast, and the Secretary-Treasurer, Wm. Edmiston Crawford, 41 Dawson Street, Dublin.

The Chartered Accountants in Australia

According to the 1936 Year Book of The Institute of Chartered Accountants in Australia (incorporated by Royal Charter granted 19th June 1928) the membership of the Institute at 30th June last was:

Fellows	680
Associates	713
Associates-not-in-practice	591
"Separate List," i.e. members who have retired from public practice and members in salaried positions outside the Profession	291
Total	2275

The President of the Institute is Sir George Mason Allard, Sydney, and the Registrar, Samuel James Carruthers, 65 York Street, Sydney.

Safeguarding Trust Funds

In further reference to the rules of the Law Societies of the various Provinces respecting trust funds, mentioned in our February and March issues, the following was made a rule of the Law Society of British Columbia 1st October 1934:

> IT IS DECLARED that every member of the Law Society of British Columbia practising as a Solicitor should at all times keep a strict account of all moneys paid to such member by any client or for or on the account of any client of such member, and should also keep moneys belonging to any client of his or to which any such client or any person other than himself is entitled in a trust or clients' account separate from his ordinary current or savings account or accounts.
>
> AND IT IS HEREBY ENACTED that if and in case any complaint shall be made against any member of the Society that he has failed to duly account for any money received by him for or on the account of any client of his or for or on account of any other person to whom he is or may be accountable therefor, and it shall appear to the Benchers that such member has made default in his duty in respect to any of the matters aforesaid such default may be treated as unprofessional conduct and such member shall be liable to suspension for such period or to disqualification from practice as the Benchers may think just and proper, and the Benchers shall have full power to suspend or disqualify him accordingly.

Insurance Companies—Gain and Loss Statement

With the kind permission of the Superintendent of Insurance of the State of New York, Albany, New York, we reproduce below a page of the annual statement required by the Department of Insurance of that state to be submitted by life insurance companies authorized to do business in the state. In his letter to us granting the permission of his Department to use any or all of the pages of the annual statement, Mr. Joseph F. Collins, Deputy Superintendent, when referring to the Gain and Loss Exhibit, said, "Incidentally, the translation of the Gain and Loss Exhibit

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Form 1 ANNUAL STATEMENT FOR THE YEAR 1936 OF THE........................ ....
(Write or stamp name of Company)

GAIN AND LOSS EXHIBIT

Gain in Surplus | Loss in Surplus

INSURANCES

*RUNNING EXPENSES

1. Total gross premiums received during the year, $.................., per item 5, page 2 of current year's statement, plus such gross premiums paid in advance December 31 of previous year, $.................. per item 21, page 5 of that year's statement, less such gross premiums paid in advance December 31 of current year $.................., per item 21, page 5 of current year's statement, giving total gross premiums of the year . . . .
2. Deduct net premiums on same. . . . .
3. Loading on gross premiums of the year (averaging ....per cent. of the gross premiums). . . . .
4. †Insurance expenses paid during the year, $.................., plus $..................unpaid December 31 of current year, less $..................unpaid December 31 of previous year, giving insurance expenses of the year (averaging..........per cent. of the gross premiums). . . . .
5. *..................from loading . . . .

INTEREST

6. Interest, dividends and rents received during the year, per item 21, page 2 (less item 29, page 3, and less $..................amortization and plus $..................accrual). . . . .
7. Add the excess of interest and rents due and accrued over interest and rents paid in advance December 31 of current year, determined as follows: item 21, page 4, less the sum of item 44B, page 4, item 22, page 5, and the interest in item 28, page 5 . . . .
8. Total. . . . .
9. Deduct the excess of interest and rents due and accrued over interest and rents paid in advance December 31 of previous year, determined as follows: item 21, page 4, less the sum of item 22, page 5, and the interest in item 30, page 5 of previous year's statement . . . .
10. Interest earned during the year (..........per cent. of mean ledger assets less one-half of interest earned) . .
11. †Investment expenses paid during the year, $.................., plus $..................unpaid December 31 of current year, less $..................unpaid December 31 of previous year, giving incurred investment expenses (averaging..........per cent. of mean ledger assets) . . . .
12. Net interest (including rents) on investments (averaging..........per cent. of mean ledger assets, less one-half of net interest on investments) . . . .
13. Deduct net interest, $.................., on disability and $..................on accidental death benefits. . . . .
14. Balance. . . . .
15. †Interest required to maintain reserve. . . . .
16. *..................from interest . . . .

MORTALITY (INSURANCES)

17. †Expected mortality on net amount at risk . . . .
18. Total death losses incurred during the year, determined as follows: item 1, column 3, page 3, plus item 13, column 7, page 5, less death claims included in item 24, page 4, December 31 of current year's statement, less item 13, column 7, page 5, plus death claims included in item 24, page 4 of previous year's statement, less $..................terminal reserves released by death; giving actual mortality on net amount at risk (equaling..........per cent. of expected mortality on net amount at risk) . . . .
19. *..................from mortality under insurance policies. . . . .

MORTALITY (ANNUITIES, EXCLUDING DISABILITY ANNUITIES)

20. †*..................from mortality under annuities (excluding disability annuities). . . . .

SURRENDERS, LAPSES AND CHANGES

21. Reserves on policies surrendered during the year for cash value or on account of which extended or paid-up insurance was granted (incurred basis) . . . .
22. Deduct amount paid in cash or applied on indebtedness, initial reserves on extended insurance, and initial reserves on paid-up insurance under said policies (incurred basis) . . . .
23. *..................from policies surrendered for cash or on account of which extended or paid-up insurance was granted during the year . . . .
24. *..................from changes and restorations made during the year . . . .
25. Gain during the year from reserves released on lapsed policies on which no cash or other value, paid-up or extended insurance was allowed . . . .
26. Total gain during the year from surrendered, lapsed and changed policies. . . . .

DIVIDENDS

27. Dividends declared to stockholders

28. Decrease in surplus on dividend account, determined as follows: the sum of items 9 (a) to (e) inclusive of page 3 $______; plus $______increase (or less $______decrease) in unpaid, deferred, apportioned and provisionally ascertained dividends per items 30, 31, 32 and 33 of page 5.

SPECIAL FUNDS

29. ______crease in special funds and special reserves during the year, being the difference between such funds and reserves on December 31 of previous year (per items______, page______), and on December 31 of current year (per items______, page______)

PROFIT AND LOSS (EXCLUDING INVESTMENTS)

30. †Carried to profit account (per items______, page______)

31. †Carried to loss account (per items______, page______)

32. Net to______account.

INVESTMENTS

REAL ESTATE

33. Total gain from real estate, being the sum of $______profit on sales, per item 27(a) page 2; $______increase in book value, per item 29(a), page 2; and $______from change in difference between book and market values during the year

34. Total loss from real estate, being the sum of $______loss on sales, per item 33(a), page 3; $______decrease in book value, per item 34(a), page 3; and $______from change in difference between book and market values during the year

STOCKS AND BONDS

35. Total gain from stocks and bonds, being the sum of $______profit on sales or maturity, per items 27(b) and (c), page 2; $______increase in book value, other than for accruals, per items 28(b) and (c), page 2; and $______from change in difference between book and market values, during the year

36. Total loss from stocks and bonds, being the sum of $______loss on sales or maturity, per items 33(b) and (c), page 3; $______decrease in book value, other than for amortization, per items 34(b) and (c), page 3; and $______from change in difference between book and market values during the year

37. *______on other investments, viz.

38. ______

39. ______

40. *______from assets not admitted

MISCELLANEOUS

41. †Net*______on account of total and permanent disability benefits included in life policies excluding loading; *______, $______active lives and *______ $______disabled lives

42. †Net*______on account of accidental death benefits included in life policies excluding loading

43. *______from all other sources (give items and amounts):

44. *______from assets not admitted excepting that reported under item 40, page 9

45. ______

46. †Balance unaccounted for

47. Total gains and losses in surplus during the year

SURPLUS

48. Surplus December 31 of previous year, per item 46, page 5 of previous year's statement

49. Surplus December 31 of current year, per item 46, page 5 of current year's statement

50. ______crease in surplus (enter in column to balance)

51. Totals

¹In the "Running Expenses" section "Disability and Accidental Death" benefits are included with the classes of insurance in connection with which such benefits were written.

*Write "Gain" or "Loss." †See "Instructions" attached.

for life insurance companies into the terms of an income statement of a commercial corporation is practically impossible, because of the peculiar characteristics of a life insurance company, which assumes a moving condition as to people living and dying, with accretions and releases from the policy reserves. It also assumes interest earnings at a specified rate, as well as an expected ratio for expenses. Capital gains and losses, however, receive similar treatment in the Gain and Loss Exhibit of a life insurance company as in ordinary accounting statements, except for the amortization feature. On the other hand, the Gain and Loss Exhibits of fire insurance and casualty insurance companies, as may be seen in the annual statement blanks required

to be submitted by those types of companies, do have a true relation to and are substantially the same as an income statement made up in accordance with standard accounting practices."

We acknowledge Mr. Collins' kindness in permitting us to reproduce this form for those of our readers interested in insurance company accounting.

Home Improvement Plan

On 11th February the House of Commons passed *The Home Improvement Loans Guarantee Act, 1937* which gave sanction to a plan recommended by the National Employment Commission and set in motion on 1st November last. The plan had been based upon an agreement with the chartered banks to advance loans aggregating fifty million dollars for the purpose of making repairs, additions and improvements to urban and rural homes. According to section 5 of the Act the total liability of the government of Canada in respect of guarantees given under the Act is not to exceed fifteen per cent. of the total amount of the loans made by any approved lending institution, that is, it is not to exceed $7,500,000 of the aggregate.

When introducing the measure, the Hon. Charles A. Dunning, Minister of Finance, indicated that the major objectives of the plan were (1) to absorb unemployment in the building trades when unemployment is not heavily concentrated; (2) to stimulate a revival of the construction industry, and (3) to make it possible for home owners throughout Canada to make long-needed repairs and improvements to their homes.

The conditions under which loans will be made are set out in section 6 of the Act which reads:

> No home improvement loan shall be guaranteed under this Act unless it complies with the following conditions:—
>
> (a) no home improvement loan shall exceed two thousand dollars on any single property except that in the case of a multiple family dwelling or a property to be converted into a multiple family dwelling, the amount of the home improvement loan shall not exceed one thousand dollars for each family unit in the property as improved plus one thousand dollars;
>
> (b) a home improvement loan shall be made only to the owner of the property to which the repairs, alterations and additions are to be made;

(c) home improvement loans shall be for a term not exceeding three years if the amount of the loan is one thousand dollars or less, and for a term not exceeding five years if the amount of the loan is more than one thousand dollars, and shall be repayable in convenient periodic instalments;

(d) the maximum charge which may be made by an approved lending institution for a home improvement loan shall not exceed a rate of discount of three and one-quarter per centum for a one year loan repayable in equal monthly instalments and proportionate rates for other periods;

(e) no service, insurance or any other additional charges of any kind shall be made by an approved lending institution as long as the borrower is not in default;

(f) no security by way of endorsement or otherwise shall be taken as long as the borrower is not in default.

Hon. Mr. Dunning also announced to the House that during the first two months of operation the sum of $1,200,000 had been loaned in small amounts, representing approximately 3,600 individual loans.

Immigration to Canada

According to the Immigration Branch of the Department of Mines and Resources, 11,643 immigrants entered Canada during the calendar year 1936. Of these 2,197 were from the British Isles and 4,876 from the United States; 817 belonged to the northern European races, while 3,753 were of 31 other races, the most preponderant being Hebrew, Polish, Ruthenian, Slovak, Italian and Magyar. During the same period 5,168 Canadians returned from the United States.

Mining Industry in Canada — Nickel

In his annual address on 30th March last to the shareholders of The International Nickel Company of Canada, the President, Robert C. Stanley, cited some interesting facts about the operations of the company during the past year and its contribution to the economic life of the Dominion. The sum of $45,500,000 was paid out by the company in Canada during the year 1936, which was made up as follows:—

Labour	$15,000,000
Materials and equipment	15,700,000
Freight and purchased power	5,500,000

Sundry expenses	4,700,000
Dividends to Canadian shareholders ..	4,600,000
Total	$45,500,000

Russian Unified State Budget

According to *The Economist* (London) of 27th March 1937, the following are the budget figures for the years since the establishment of the first Five-Year Plan of the Union of Socialist Soviet Republics:

Revenue and State Loans
(in millions of roubles)

Year	Turnover tax; Taxes on profits of state industrial concerns; Direct taxes	Other revenue, including balance from previous year	Proceeds of State loans	Total
1928-29	7,465	238	725	8,428
1929-30	11,486	222	1,278	12,986
1930	4,306	660	356	5,322
1931	19,497	1,095	3,269	23,861
1932	27,062	646	3,922	31,630
1933	30,051	948	4,012	35,011
1934	43,316	1,238	4,325	48,879
1935	61,008	478	4,415	65,901
1936	72,049	1,516	5,150	78,715
1937	90,418	1,677	5,975	98,070

Expenditures and Repayment of State Loans
(in millions of roubles)

Year	National economy	Social and cultural	Defence and Administration	Other Expenditures	Repayment of State loans	Total
1928-29 ..	4,784	482	1,207	1,637	318	8,428
1929-30 ..	7,681	795	1,397	2,708	405	12,986
1930 ..	3,125	296	533	1,293	75	5,322
1931 ..	18,048	1,291	1,714	2,400	408	23,861
1932 ..	23,664	1,706	1,987	3,311	962	31,630
1933 ..	23,912	2,393	2,265	5,111	1,330	35,011
1934 ..	33,384	3,019	2,873	7,901	1,702	48,879
1935 ..	35,157	4,804	9,039	15,086	1,815	65,901
1936 ..	37,584	6,509	17,897	14,023	2,702	78,715
1937 ..	39,586	26,605	24,570	4,730	2,579	98,070

(NOTE: The figures for both revenue and expenditure for 1930 are for one quarter only to alter the accounting year; those for 1935, 1936 and 1937 are estimates).

Russia Shipping Gold

About $25,000,000 in gold recently arrived in England from Russia, and an additional shipment of $165,000,000

worth is coming in the near future, according to a despatch from London on 12th April last. While part of the gold thus shipped was in payment of recent purchases of rubber, metals and other commodities, most of the bullion was being transhipped to New York where dollars are provided. The United States set a high level of $35 per ounce as the price of gold, and the treasury pays that price to all sources.

A bulletin issued by Samuel Montagu & Co., leading London bullion brokers, gives the following figures for the gold reserves of the four great gold-holding countries of the world:

United States treasury	$11,575,000,000
Russia	6,860,000,000
Bank of France	2,621,000,000
Bank of England	2,593,000,000

As mentioned elsewhere in this issue this month, Russia is increasing its annual gold production to so great a degree that it now holds second place among the countries of the world, and within another year will probably rank as the world's greatest producer of the precious metal. The question is now raised as to how long the United States government will be willing to pay $35 per ounce for an ever-increasing supply.

LEGAL DECISIONS

[EDITOR'S NOTE: The following are brief summaries of recent decisions of the Canadian Courts as taken, by the kind permission of the Canada Law Book Company, from the *Dominion Law Reports*. In each case reference is made to the volume of the *Reports* where the full judgment may be found. It should be kept in mind that the decisions given may not always be final.]

Bankruptcy—Fees of solicitor for trustee—Limitation on increase

(Re Linton & Sinclair Co. Ltd.)

New Brunswick Supreme Court

The fees and costs of a solicitor for the trustee are not, by virtue of s. 162(3) of the Bankruptcy Act, limited to 10% of the gross proceeds of estates less than $5,000. The 10% limitation is only intended on increases above the scale fixed by the Tariff of Fees. Where the gross proceeds of an estate were $2,103, and the taxes fees $848.40, it was held error to reduce the allowance to $210.30 and expenses on the basis of 10% of the gross proceeds.—[1937] 1 D.L.R. 137.

Companies—Directors' liability for wages—Director as "servant"—Field manager

(Mulligan v. *Lancaster et al.)*

Alberta Supreme Court

A director of a mining company appointed by the board as field manager is not a "clerk, labourer, servant or apprentice" within the meaning of s. 113 of *The Companies Act,* R.S.C. 1927, c. 27 (now 1934 (Can.), c. 33) as will entitle him to sue the directors on their statutory liability for wages due him in the capacity of field manager for the company.—[1937] 1 D.L.R. 414.

Income tax—Payment to executor for services —Accumulation of salary—When taxable

(Capital Trust Corporation et al. v. *Minister of National Revenue)*

Supreme Court of Canada

The remuneration of $500 per month to J.M. "in addition to any sum which the Courts or other authorities may allow

him in common with the other executors," as provided for in the codicil to a will held to be in payment of services as executor, and not a gift or bequest, and therefore taxable under the *Income War Tax Act*, R.S.C. 1927, c. 97, and such income is assessable for the year in which it is received, irrespective of the period during which it is earned or accrues due.—[1937] 1 D.L.R. 617.

(Note: This is an appeal from the judgment of the Exchequer Court affirming the decision of the Minister of National Revenue in regard to income tax. Affirmed. The judgment of the Exchequer Court was reported at pages 60-63 of the July issue of THE CANADIAN CHARTERED ACCOUNTANT.)

Income tax—Provincial income tax on Dominion employees —Direct taxation

(Forbes v. *Attorney-General of Manitoba)*

Judicial Committee of the Privy Council

The legislative authority of the Provinces under s. 92(2) of the B.N.A. Act, with respect to "Direct Taxation within the Province," embraces the power to levy taxes upon residents of the Province in respect of their incomes even though a resident be an employee or a servant or officer of the Dominion Government. And the exercise of such power by the Province is no encroachment upon the exclusive powers of the Dominion Parliament, to fix "the Salaries and Allowances of Civil and other Officers of the Government of Canada," under s. 91(8) of the B.N.A. Act; nor is it *ultra vires* of the Provincial Legislature to provide that if a wage-earner within the Province receives his wages from an employer outside the Province without deduction of tax, the wage-earner shall himself pay the tax, whether the outside employer be the Dominion Government or anyone else. The *Manitoba Special Income Tax Act, 1933*, c. 44, is therefore *intra vires*.—[1937] 1 D.L.R. 289.

PROVINCIAL NEWS

BRITISH COLUMBIA

A General Committee has been named by the Institute of Chartered Accountants of British Columbia, under the Chairmanship of Mr. G. F. Gyles, C.A., to make suitable arrangements to receive and entertain the delegates, guests and ladies attending the Annual Meeting of the Dominion Association of Chartered Accountants which is to be held in August of this year at Vancouver, B.C.

NEW BRUNSWICK

At a recent meeting of the New Brunswick Institute Mr. Robert K. Laidlaw, formerly with Messrs. Price, Waterhouse & Co., in Montreal, and Mr. Esmond Grier, formerly with Messrs. Riddell, Stead, Graham & Hutchison of Toronto, were admitted as resident members of the New Brunswick Institute, and have joined the staff of Messrs. Hudson, McMackin & Company, chartered accountants, Saint John and Moncton.

QUEBEC

The regular quarterly meeting of the Society of Chartered Accountants of the Province of Quebec was held in the form of a dinner meeting at the Montreal Club at 6.30 p.m. on Wednesday, March 24th. Approximately fifty members attended the dinner.

Following the dinner a brief business session was held and the President, Mr. K. W. Dalglish, submitted a report covering the following matters:—

During the past quarter applications for registration were accepted from twelve students and in addition six graduates of the School of Commerce of McGill University and the School of Higher Commercial Studies of the University of Montreal registered with the Society.

Mr. Edgar Armand, a successful candidate of a former final examination held at the School of Higher Commercial Studies of the University of Montreal, was admitted to membership.

A revised catalogue of the library had been prepared and issued to the members.

Messrs. H. D. Clapperton, Campbell W. Leach, R. R. Thompson and P. F. Seymour had been appointed by the Council to conduct the forthcoming final examination to be held at McGill University.

Increased use of the Society's premises and library by members and students indicated that the existing facilities would not be entirely adequate for future requirements and the Council has arranged for new premises, consisting of a suite of offices on the fourth floor of the Canada Cement Building. The move will be made to the new offices on the 1st of May, and Mrs. E. Dixon, who has become familiar with the work of the Society while in the employ of Mr. Robert Wilson, the Secretary, will be employed by the Society and will continue to carry on the secretarial and office work in the new quarters.

Notification was also given the members that it is the intention of the Council to submit a revised scale of admission fees and students' registration fees to the members at the annual meeting for their consideration.

PERSONALS

Messrs. Goodman & Goodman, Chartered Accountants, announce that they have moved their offices from the University Tower Building, 660 St. Catherine Street West, to the Crescent Building, 1411 Crescent Street, Montreal.

Messrs. Haskell, Elderkin & Co., Chartered Accountants, announce the removal of their offices to the Royal Bank Building, 360 St. James Street West, Montreal.

Mr. T. L. Wright, a member of the Alberta Institute, has recently been appointed assistant secretary of the Calgary Stock Exchange.

BOOK REVIEW

LOCAL AUTHORITIES: INTERNAL FINANCIAL CONTROL

By A. H. Marshall, B.Sc. (Econ.), A.I.M.T.A., A.S.A.A.
(Deputy City Treasurer, Coventry, England)

(*Metchim & Son, Ltd.*, 8 Princes Street, Westminster, S.W. 1, England, 1936, cloth, 218 pages, 7s. 6d.)

This is one of a series of Research studies promoted by the Institute of Public Administration under a scheme which has been made possible by a special Fund. In this instance the research has been carried out in co-operation with the Institute of Municipal Treasurers and Accountants (Incorporated).

The book is essentially English and much of the information contained therein has reference to English Statutes affecting Municipalities and other Local Authorities which, of course while informative to the Canadian reader is not of great practical value.

The author discusses in a clear and concise manner the functions of councils, finance committees and the duties of the chief financial officer in regard to the control of the finances of the authorities from the preparation of the estimates to the final payment of accounts, and his findings on various matters are compared with replies to questionnaires sent in by Municipal Treasurers throughout England and Scotland.

Appendices include suggested standing orders for Local Authorities and a description of the form of the principal published costing returns for (1) Rate Fund Services, (2) Trading Undertakings, which contain valuable information.

The author should be complimented on the excellent manner in which the subject has been arranged and indexed.

The Volume might, with advantage, be in the possession of the financial officers, and finance committee chairman of all our municipalities, as well as others interested in municipal finance, and the adoption of many of the procedures set out in the treatise could not but strengthen the financial position of municipalities in general.

J. B. Boyter.

Toronto, 10th April 1937.

PUBLICATIONS RECEIVED

Bibliography of Municipal and State Accounting, Published by the Municipal Finance Officers' Association of the United States and Canada, 850 East Fifty-Eighth Street, Chicago, February 1937, paper, 38 pp., 35 cents. The bibliography consists of books, pamphlets, and articles dealing with accounting and budgeting for states, counties, cities, towns and villages, and schools. The material has also been classified so as to bring together in one place all references on a particular topic.

Public Accounts of the Province of Saskatchewan for the fiscal period ended 30th April 1936, published by the King's Printer, Regina, 1937, paper, 358 pp.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

Accountants are so convinced of the imperative necessity of providing adequately for depreciation of fixed assets that they are likely to be shocked by recent declarations of economists that such provision may be socially undesirable.[1] The argument is that the creation of depreciation reserves enables management to perpetuate the physical apparatus of production without having to justify such perpetuation by appealing to shareholders (or the public at large) on a prospectus which reveals the trend of the company's affairs. As a result it may happen that management, in its own interest, keeps alive indefinitely a waning industry whose continued existence is unwarranted, and so diverts to uneconomic use capital which should be applied to the development of new industries capable of yielding a greater social net profit.

It is not difficult to detect in the Canadian economy instances in which this argument is of weight. But the argument at bottom is a criticism of management rather than of accounting procedures, for it is not the provision for depreciation that is harmful but the use made of that provision by management. The effect of charging depreciation (so far as the charge is covered by gross income) is to accumulate current assets in place of fixed assets of equal amount. The re-investment of these current assets in new fixed assets (which seemingly now takes place almost as a matter of course) is proper only if the contemporary net return on capital in the industry in question is as great as the net return available to new capital which might be applied to any other industry. There is however nothing to prevent these current assets being accumulated as current assets for subsequent distribution to the owners of the concern (i.e. the self-liquidation of the undertaking) and the re-investment by the recipients, at *their* discretion, of the amounts so distributed. Thus a case was recently

[1]See, for example, Röpke's, *Theory of Capital Formation*, as quoted by Ellis in *German Monetary Theory, 1905-1933*, (Harvard University Press) page 368.

brought to our attention of a Canadian company whose earnings, after charging depreciation, were unsatisfactory. The management wisely were not re-investing the depreciation funds in fixed assets but were utilizing them instead to redeem some three quarters of a million dollars of bonds each year, and so ensuring the most rapid and economical liquidation of their company.

This interesting argument would seem to involve no modification of accounting theory but yet to be of great importance to accountants in their capacity as consultants of management.

* * *

We believe that those students who still have examinations ahead of them will find much profit in the advice given by Mr. Howard F. Greene of Northwestern University in an article published recently in *The Accounting Review* on "Technical Preparation for the C.P.A. Examination." There is accordingly reproduced in this issue by kind permission of the publishers of *The Accounting Review* the first instalment of extracts from this article. Further extracts will appear in subsequent issues of The Students' Department.

* * *

STUDENTS' ASSOCIATION NOTES

BRITISH COLUMBIA

On March 10th the annual badminton tournament was held at the Vancouver Drill Hall and was featured by some very closely, if not always expertly, contested sets. It was followed by the serving of a light supper.

April 19th was the date of the first dinner meeting of the Spring Season, to be held at the Pacific Athletic Club, Vancouver's newest businessmen's club. A large turnout of both Students and Members was expected to hear the interesting lectures arranged. We are introducing for the first time the plan of having two short discussions instead of one long one.

Our speakers were to be: Mr. C. G. Banner, Credit Manager of the Hudson's Bay Company Vancouver store, who would discuss the "Prevention of Fraudulent Purchases," in which matter he is exceptionally well versed, and Mr. Thos. Downie, who would describe the "Organization of the

Retail Credit Grantors Bureau, Limited" of which he is manager.

A very successful evening was anticipated.

QUEBEC

The writing of the Test Examinations having been concluded, the discussion of the first accounting paper written on March 13th was held in the York Room of the Windsor Hotel on Tuesday, April 13th. Mr. A. W. Gilmour, C.A., the examiner, presented the solutions of the various questions, and at the same time pointed out to the students the reasons for loss of marks and the methods of handling questions of this nature for examination purposes. Mr. Gilmour went on to explain that the failure of a student to read carefully the requirements of the examiner and then to see that his solution fulfilled these requirements was the cause of the loss to the student of a good majority of marks.

Over sixty members of the Students' Society sat for the first accounting paper, and the attendance at the discussion of this paper on April 13th numbered more than seventy-five. This attendance was very gratifying to the Examining Committee as well as to the Executive Committee, because those qualified to sit for the final examinations in May will hardly number more than ninety.

The discussion of the second accounting paper took place on Thursday, April 22nd, and of the auditing paper, on Tuesday, April 27th.

Tentative plans are now under way for the final open meeting which will be held on May 18th.

It is hoped that it will be possible to combine a social evening with the debate, "Resolved: That Chartered Accountants should take an active part in Public Affairs," which is scheduled for that evening. To date several applications have been received for participation in this debate.

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by a practising chartered accountant of the Institute from whose examinations the problem is taken and represent his views and opinions. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA

FINAL EXAMINATIONS, NOVEMBER, 1936.
ACCOUNTING NO. 3. QUESTION 4.

A. B. Company Ltd. was incorporated on June 29, 1932, with a capital of $50,000.00. The results of its trading were, as per its books, a loss of $59,500.00 for the three years ended June 30, 1935.

On July 1, 1935, a Receiving Order was made against the Company, and a custodian was appointed with power to carry on the business so far "as may be necessary for conservatory purposes" until the first meeting of creditors, and appointment of a Trustee and Inspectors.

As at July 1, 1935, the Company's assets and liabilities as per the books, and as estimated, or expected to rank respectively, were as follows:—

Assets	**Per books**
Merchandise (Stock in Trade)— Estimated to realize $10,500.00	$15,019.00
Accounts receivable, of which $10,430.00 were good and expected to be realized and 2,330.00 doubtful and bad	12,760.00
Notes Receivable, Expected to realize $640.00	820.00
Cash in Bank	11.00
Cash on hand	10.00
Machinery, Equipment & plant, estimated to realize $6,100.00. Wholly charged under Chattel Mortgage for $5,000.00, on which 6 months interest @ 8% had accrued	8,740.00
Real Estate, Estimated to realize $1,500.00	1,200.00
Furniture, Fixtures, etc., Estimated to realize $ 320.00	1,540.00
Investments (Shares), Estimated to realize $ 50.00	100.00
Liabilities	
Accounts payable, unsecured. Creditors' Proofs show $46,231.00	45,150.00
Chattel Mortgage, above mentioned	5,000.00
Creditors, for wages recently due	550.00

Capital subscribed $50,000.00			
Unpaid thereon 1,000.00			49,000.00
Claim against A. B. Co. Ltd. for damages—proof submitted	$2,000.00		
Custodian estimates it will rank for only	200.00		

The amount unpaid on Share Capital subscribed is considered irrecoverable as the Shareholder who subscribed therefor recently died, without discoverable assets.

The custodian's receipts and payments are as follows:—

Receipts:—

Debtors cash on hand & in bank	$ 21.00
Accounts Receivable collected	3,210.00
Notes Receivable collected	240.00
	3,471.00
Merchandise sold	1,232.90

Sundry Payments:—

For fees to Official Receiver, Costs of advertising, Notices to Creditors, Stock-taking, Bond Premium, Insurance, and wages and expenses of carrying on the business, etc.	441.50

At the first meeting of creditors, the Custodian is appointed the Trustee. At the first meeting of Inspectors, they approve of a fee of $50.00 to him, as Custodian, for carrying on the business, and this fee is later allowed by the Registrar. The Inspectors sanction the Trustee further carrying on the business in view of a possible sale en bloc to a former employee of the Company and his friends who have enquired concerning this. The Chattel Mortgagee having agreed to accept payments from the intending purchasers in respect of his charge on the machinery and equipment, the sale is later effected, the Trustee receiving a sum of $17,750.00 in cash in respect of the undermentioned assets:—

Merchandise—remaining	$7,300.00
Furniture & Fixtures	300.00
Machinery & Equipment—equity	900.00
Accounts Receivable—remaining	7,300.00
Notes Receivable—remaining	400.00
Real Estate	1,550.00

The Trustee later realized $60.00 for the investment shares. He also effected recovery, under Section 64 of the Bankruptcy Act, of sums totalling $2,000.00, representing payments which had been made within three months preceding the Receiving Order to two existing creditors on account of sums due to them.

The Trustee's further receipts and payments, excluding payments to preferred and ordinary creditors and the levy payable to the Receiver General under Section 126A, were as follows:

Receipts:—

Rebate on Insurance and Bond Premiums	$ 47.00
Interest on Savings Bank Account	30.00
Merchandise sold previous to sale of business	2,820.00

Payments:—

Sundry Payments including wages and expenses of carrying on the business, Legal Costs and fees and other expenses to date of Trustee's discharge, with exception of Trustee's remuneration	$ 654.40

The Trustee's remuneration is approved by the Inspectors and allowed by the Court at the sum of $1,500.00. The Trustee admits proof of claim by the claimant for damages done by the Company at $200.00 only, and this is not contested. The other ordinary creditors' proofs are admitted at $48,230.00, and Preferred Creditors' proofs at $550.00.

Prepare:—

(1) Statement of Affairs and Deficiency Account based thereon;

(2) Trustee's final statement of Receipts and Disbursements in such a form as to develop the amount available for distribution to creditors and the rate of dividend to the ordinary creditors.

SOLUTION
A B COMPANY LIMITED
STATEMENT OF AFFAIRS
As at July 1, 1935

Liabilities		Per Books	Expected to Rank
Unsecured Liabilities:			
Accounts Payable		$45,150.00	$46,231.00
Secured Creditors:			
Chattel Mortgage	$5,000.00	5,000.00	
Accrued Interest thereon	200.00	—	—
	5,200.00		
Estimated Value of Security	6,100.00		
Surplus security, per contra	$ 900.00		
Preferred Creditors:			
Wages due		550.00	550.00
Contingent Liability:			
Claim for damages	$2,000.00	—	200.00
		$50,700.00	$46,981.00

Assets		Per Books	Expected to Realize
Stock in trade		$15,019.00	$10,500.00
Book Debts:			
Good	$10,400.00		
Doubtful	2,200.00	12,760.00	10,400.00

Notes Receivable		820.00	640.00
Cash in bank		11.00	11.00
Cash on hand		10.00	10.00
Machinery, Plant and Equipment, subject to Chattel Mortgage, per contra		8,740.00	—
Surplus from securities in hands of creditors fully secured		—	900.00
Real Estate		1,200.00	1,500.00
Furniture and Fixtures		1,540.00	320.00
Investment Shares		100.00	50.00
Share Capital Subscribed	$50,000.00		
Amount paid thereon	49,000.00		
Balance subscribed and unpaid	$ 1,000.00	—	—
Total Assets		40,200.00	24,331.00
Deficiency		10,500.00	22,650.00
		$50,700.00	$46,981.00

DEFICIENCY ACCOUNT

		Dr.	Cr.
Capital Paid Up			$49,000.00
Deficit from Operations		$59,500.00	
Shrinkage in Value of Assets	$10,669.00		
Increase in Liabilities	1,481.00	12,150.00	
Deficiency, per Statement of Affairs			22,650.00
		$71,650.00	$71,650.00

A B COMPANY LIMITED, IN BANKRUPTCY

Trustee's Statement of Receipts and Disbursements

Receipts

Cash from Custodian		$ 4,212.40
Proceeds from sale of Business		17,750.00
Proceeds from sale of Investment Shares		60.00
Recovered from Creditors, being "preference" payments refunded		2,000.00
Rebate on Insurance		47.00
Interest on bank deposits		30.00
Merchandise Sales		2,820.00
Total Receipts		$26,919.40

Disbursements

Wages and Expenses	$ 654.40	
Trustee's Remuneration	1,500.00	
Total Disbursements		2,154.40
Balance in hands of Trustee		24,765.00
Deduct Preferred Creditors		550.00

Amount available for Ordinary Creditors whose claims total $48,430.00, equivalent to a dividend of 50%	$24,215.00

Note: Levy payable to the Receiver General under Section 126A will be disbursed out of the amount of $24,215.00 shown as available for Ordinary Creditors.

PROBLEM II.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA

FINAL EXAMINATIONS, NOVEMBER 1936.

ACCOUNTING No. 4. QUESTION 4.

Following is the profit and loss account of the X Company, incorporated in and operating in British Columbia, for the fiscal year ending August 31, 1936:

Gross profit from operations			$ 93,000.00
Add—			
Miscellaneous Income:			
Dividends		$10,000.00	
Rents		7,000.00	17,000.00
			$110,000.00
Deduct—			
Executive salaries		$15,000.00	
Office salaries		25,000.00	
Directors' fees		5,000.00	
General expenses		5,000.00	
Loss on sale of capital assets		8,000.00	
Bad debts		10,000.00	
Life Insurance premium on life of president		2,000.00	70,000.00
			$ 40,000.00
Deduct—			
Interest:			
Bank loans	$10,000.00		
Bonds	30,000.00	$40,000.00	
Depreciation		20,000.00	60,000.00
Loss for the Year			$ 20,000.00

. . . .

Dividends received as follows:

B.C. Power Corporation Ltd.	$ 1,000.00
Bralorne Mines Ltd. (N.P.L.)	2,000.00
International Nickel Co. of Canada Ltd.	4,000.00
United States Steel Corporation	3,000.00
	$ 10,000.00

General Expenses:

Office stationery, postage, stamps, etc.	$ 2,500.00
Charitable donations	1,500.00
Entertaining expense	1,000.00
	$ 5,000.00

Bad Debts reserve:

Balance at beginning of year	$ 10,000.00
Recovered from accounts previously written off	5,000.00
Provision for year	10,000.00
	$25,000.00
Accounts written off	20,000.00
Balance at end of year	$ 5,000.00

Notes—

Dominion taxation authorities have conceded the reserve basis to the Company for bad debts.

Bonds are bearer, and Company have no knowledge of recipients.

Depreciation is allowed in full by both taxing bodies.

Write a concise letter to the Company advising on basis of filing returns to the Province of British Columbia, and the Dominion of Canada, stating if any liability exists for income taxes, and attaching statements showing calculations in support of your letter.

SOLUTION

The "X" Company,
British Columbia.

Dear Sirs:

In accordance with your request we have made an examination of the Profit and Loss Account of your Company for the fiscal year ending August 31 1936, for the purpose of advising you as to the basis of filing your Dominion and Provincial Taxation Returns for the year in question, and submit hereunder comments in this connection:—

Province of British Columbia:

We have prepared and attach hereto statement showing alternative bases of calculation of the Province of British Columbia income tax. You will note by an examination of this statement that the most favourable basis is for the Company to file its return adding back the bond interest of $30,000.00. This results in a tax of $1,018.50 compared with a tax, on the basis of filing a separate return in respect of bond interest, of $1,500.00. We have assumed that the Capital Assets sold, from which a loss of $8,000.00 has arisen, have not been replaced.

Dominion of Canada:

We have detailed on the statement attached the basis of arriving at the loss for taxation purposes for inclusion in your Dominion taxation return. No tax is assessable in respect thereto.

Yours very truly,

Encl.

PROVINCE OF BRITISH COLUMBIA

Loss per statement		$20,000.00
Add—		
Tax free dividends:		
B.C. Power Corporation Ltd.	$ 1,000.00	
Bralorne Mines Ltd. (N.P.L.)	2,000.00	3,000.00
		$23,000.00
Deduct—		
Disallowable charges:		
Charitable donations	$ 1,500.00	
Entertaining expenses	1,000.00	
Loss on capital assets	8,000.00	
Life Insurance premium	2,000.00	12,500.00
		$10,500.00
Add—		
Bad debts written off in excess of provision for year and recoveries		5,000.00
Adjusted loss for purposes of return		$15,500.00
Tax on Bond Interest:		
Bond interest	$30,000.00	
Tax thereon at 5%		$ 1,500.00
Alternative calculation based on elimination of charges for Bond Interest:		
Adjusted loss as above		$15,500.00
Less—Bond interest		30,000.00
		$14,500.00
Deduct—5% for charitable donations		725.00
Taxable profit		$13,775.00
Tax thereon		$ 1,018.50

DOMINION OF CANADA

Loss per statement		$20,000.00
Add—		
Tax free dividends		7,000.00
		$27,000.00
Deduct—		
Disallowable charges:		
Charitable donations	$ 1,500.00	
Entertaining expenses	1,000.00	
Loss on capital assets	8,000.00	
Life Insurance premium	2,000.00	12,500.00
Adjusted loss for purposes of return		$14,500.00
Tax thereon		NIL

TECHNICAL PREPARATION FOR ACCOUNTING EXAMINATIONS

By Howard F. Greene,
Northwestern University, Evanston, Illinois.

Many volumes have been written covering the material which must be studied and reviewed in preparation for sitting for the C.P.A. examination. Much less material is available, however, on the technical preparation for the culmination of many months of hard labor and sacrifice. And yet many candidates have lacked the few points necessary to raise a 71, a 72 or a 73 to grade 75 simply through lack of such technical preparation.

First of all, the candidate should be thoroughly sure in his own mind of the strategy to be employed before he starts. This refers to the entire examination as well as to the individual problems. For the nervous individual a relaxation period of five minutes may be desirable before starting to work. Five minutes of gazing into space with the examination papers upside down on the table is a marvelous test of self-control, and provides opportunity for the nervous candidate to realize that this examination is given twice a year, and can be taken in many states twice for the same fee. He is then in a much improved position to exert every effort logically and directly towards the achievement of his Great Desire.

Some instructors advocate attacking the examination problems in order as they are presented, rigidly allotting time to each in ratio to the number of points. It is believed that a more logical approach is to scan the entire examination, to decide which problems can be worked the most easily, and then to solve in the order of the easiest first. This method permits acquiring the greatest possible number of points in the shortest space of time and tends to encourage that self-confidence which is invariably a requisite in a successful candidate. In many instances where the candidate finds himself short of time to complete the examination, he will be stopped in the middle of the hardest problem but probably only after he has done sufficient work to indicate to the examiner that he understands the points involved and is proceeding to a correct solution. The chances of achieving a passing grade are believed to

be better under this method than they would be by attacking the hardest problem first and never getting even that problem completed.

General

1. Never abbreviate on formal statements. The balance sheet, profits statement, and so on are just as formal as wedding or birth announcements and one would certainly not consider issuing announcements that "Miss Brown and Mr. Jones will be married on Wed., Dec. 31, 1935."

2. Never head a statement "For the Period Ending December 31, 1935." Such a caption without specifying the length of the period involved, be it day, week, month or year, is of little value in properly describing the statement which it heads.

3. Do not show any unexplained figures or totals. If figures with little significance are absolutely unavoidable, at least they should be captioned "Total" or "Net." Also, it is poor practice to show the total for a column of figures opposite the last figure in the group necessitating reading from the top of the group to the bottom to connect the total figure with its proper caption. To avoid any possibility of misunderstanding on the part of the lay reader or the executive who is not an expert accountant, and to make the statement more informative, every figure should have some caption.

4. The heading of every statement should include at least three items of information, namely, name of the company for which the statement is prepared, title of statement, and the date as of which the statement is prepared or the period covered, as the case may be. If subschedules are prepared to support condensed figures used in the principal exhibits, such subschedules should have complete headings also.

5. Although it is desirable to adhere strictly to the terminology of the classification of ledger accounts in internal accounting procedure, captions and descriptions which will convey in the clearest and most explanatory fashion the significance of the figures involved should be employed in preparing statements for executive use or public consumption.

6. It is not desirable to leave unrequired space between items or sub-divisions of statements. A reader not versed

in accounting procedure might wonder if some item were not omitted through error.

7. Statements should always be condensed so that they can be presented on one sheet of paper. A busy executive does not care to be constantly turning from one page to another in order to secure a complete picture of that phase of the business represented by the particular statement. The use of condensed figures supported by subschedules is desirable where statements involving large volumes of detail are prepared.

8. The prime purpose of variation in margins and underlining is to differentiate as to the relative importance of the various items appearing on the statement through an appeal to the reader's vision as well as to intelligence and accounting knowledge. Consequently, all major captions, such as division headings, should be started from the left-hand margin of the statement. Obviously the left-hand margin, towards which attention is first directed by any reader, is the margin of emphasis.

Neatness in margins and underlines will probably do more to "dress up" a statement and create the impression of professional ability than any other single thing. Margins should be of sufficient size to be well-defined and should always be even and vertically straight—*not* wavy or slanting. Writing should start *at* the margin line—not somewhere in that general vicinity.

A rule which is followed by many accountants requires that figures corresponding to captions at the left-hand margin be placed in the right-hand money column, captions indented one space correspond to figures in the next-to-the-right-hand money column, and so on.

Many accountants instruct their typists to copy all captions that are underlined on the pencil copy in upper case type. This seems to be a desirable practice to follow and provides a good rule for underlining in preparing pencil copy, namely, that all important captions and headings must be underlined.

9. The use of a ruler or straight-edge of some sort is strongly urged. In the examination room a heavy blotter may serve the purpose and prevent the possibility of much noisy handling of rulers.

10. The tendency of some students to crowd a statement on a sheet of paper that is not quite large enough for the purpose is to be deplored. Paper is one of the most inexpensive utensils with which the accountant has to work, and the effect of an expensive education should not be spoiled in an endeavour to save a piece of paper costing a fraction of a cent.

11. Dollar signs should be inserted wherever necessary. The typist will usually copy exactly what has been prepared.

12. A colon should be inserted immediately following division headings or other captions which are amplified or explained by subsequent figures. The colon in the language of the accountant means "detail follows."

13. Double underlines below the last figures on each statement are an absolute necessity. They are the accountants' symbol for *C'est fini*, and until they have been inserted the statement cannot be considered complete.

14. The practice on the part of some candidates of preparing statements "in the rough" and then recopying to a final draft is to be deplored. An accountant meriting a C.P.A. degree must be able to think concisely and clearly enough to go about the job in a logical and orderly fashion and make his first copy the final draft. In any event, lack of time will prohibit preparing two drafts and such practice must become a mere matter of habit long before the examination can be successfully attempted.